Directors' Report
on the operations of the Grupa Azoty Group
in the first half of 2017

Grupa Azoty

Contents

1. General information on the Grupa Azoty Group

The Grupa Azoty Group is one of Central Europe's major chemical groups with a strong presence on the market of mineral fertilizers, engineering plastics, OXO products, and other chemicals.
The Group has brought together companies with different traditions and complementary business profiles, seeking to leverage their potential to deliver a common strategy. This has led to the creation of Poland's largest chemical group and a major industry player in Europe. Thanks to its carefully designed structure, the Group offers a diverse product mix, ranging from nitrogen and compound fertilizers, engineering plastics, to OXO products and melamine.
Grupa Azoty S.A. has been listed on the Warsaw Stock Exchange since June 30th 2008. It is included in the WIG, WIG30, mWIG 40, WIG-Poland, and WIG-CHEMIA indices, as well as the Respect Index. Its shares are also a constituent of foreign indices: MSCI Emerging Markets and FTSE Emerging Markets.
As at June 30th 2017, the Grupa Azoty Group (the „Group") comprised Grupa Azoty S.A. (the parent) and nine subsidiaries.

The Parent

The Company's principal place of business is located at ul. Kwiatkowskiego 8 in Tarnów, Poland. Since April 22nd 2013, the Company has been trading under the name Grupa Azoty Spółka Akcyjna ("Grupa Azoty S.A.").
Grupa Azoty S.A. is an integrated manufacturer of polyamide 6, obtained through polymerisation of caprolactam. It also specialises in the production of nitrogen-sulfur fertilizers.

Parent's subsidiaries

Grupa Azoty Zakłady Azotowe Puławy S.A.
The company has its registered office in at Al. Tysiąclecia Państwa Polskiego 13, Puławy, Poland Since April 4th 2013, it has been trading under the name Grupa Azoty Zakłady Azotowe Puławy Spółka Akcyjna ("Grupa Azoty PUŁAWY").
Grupa Azoty PUŁAWY specialises in the manufacturing of nitrogen fertilizers and is one of the largest melamine manufacturers in the world.

Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna
The company has its registered office at ul. Mostowa 30A, Kędzierzyn-Koźle, Poland. Since January 11th 2013, it has been trading under the name Grupa Azoty Zakłady Azotowe Kędzierzyn Spółka Akcyjna ("Grupa Azoty KĘDZIERZYN").
The company's two business pillars are nitrogen fertilizers and OXO products (OXO alcohols and plasticisers).

Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna
The company has its registered office at ul. Kuźnicka 1, Police, Poland. Since June 3rd 2013, it has been trading under the name Grupa Azoty Zakłady Chemiczne Police Spółka Akcyjna ("Grupa Azoty POLICE").
Grupa Azoty POLICE is a major manufacturer of compound and nitrogen fertilizers, and titanium white.

Grupa Azoty ATT Polymers GmbH
The company's registered office is located in Guben, Germany. Since July 10th 2013, it has been trading under the name Grupa Azoty ATT Polymers GmbH.
It manufacturs polyamide 6 (PA6).

Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością
The company's registered office is located at ul. E Kwiatkowskiego 7, Tarnów, Poland.
Since February 28th 2013, it has been trading under the name Grupa Azoty Polskie Konsorcjum Chemiczne Spółka z ograniczoną odpowiedzialnością ("Grupa Azoty PKCh").
Grupa Azoty PKCh provides comprehensive design services encompassing complete design support for investment projects in the chemical industry − from study and concept works to process and construction design and working plans for services during the construction, commissioning and operation of process units.

Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością
The company's registered office is located at ul. Kwiatkowskiego 8, Tarnów, Poland.

Since March 6th 2013, it has been trading under the name Grupa Azoty Koltar Spółka z ograniczoną odpowiedzialnością (“Grupa Azoty KOLTAR”).
Grupa Azoty Koltar provides railway transport services nationwide. It is one of the few organisations in Poland to hold licences required to perform comprehensive repairs of rail car chassis and tank cars used in the transport of hazardous materials (according to RID).

Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna
The company’s registered office is located in Grzybów. Since February 11th 2014, it has been trading under the name Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki Siarkopol Spółka Akcyjna (“Grupa Azoty SIARKOPOL”).
Grupa Azoty SIARKOPOL is Poland’s largest producer of liquid sulfur.

Grupa Azoty Folie Spółka z ograniczoną odpowiedzialnością
The company’s registered office is located in Tarnów. Its principal business is research and development in technical science.

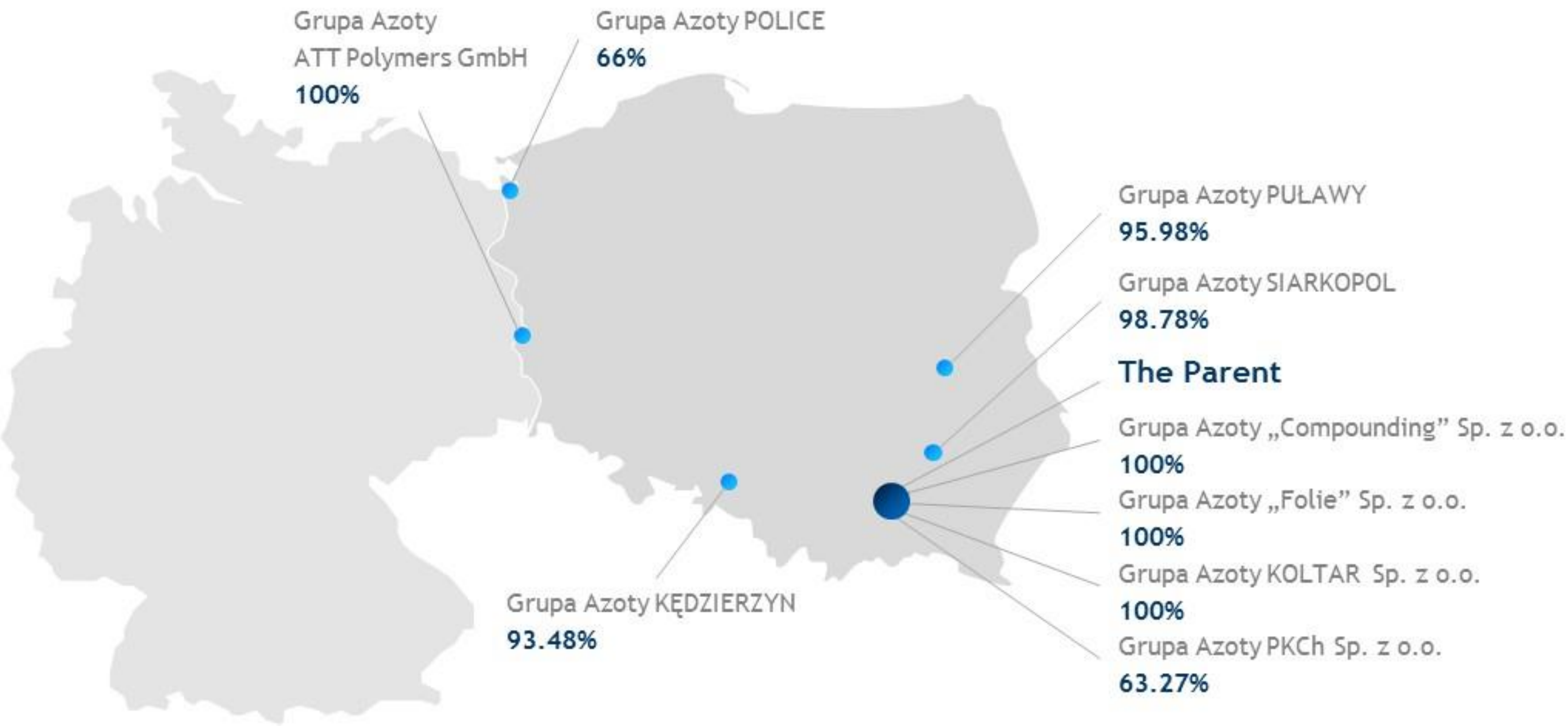
Grupa Azoty Compounding Spółka z ograniczoną odpowiedzialnością
The company’s registered office is located in Tarnów. Its business model is based on a portfolio of specialised engineering plastics manufactured through the compounding of plastics, with the use of innovative technological solutions.

Parent’s equity interests in the subsidiaries as at June 30th 2017

(all amounts in PLN '000 unless indicated otherwise)

Company	Registered office/address	Share capital *(currency)*	% of shares held directly
Grupa Azoty ATT Polymers GmbH	Forster Straße 72 03172 Guben, Germany	EUR 9,000,000	100.00
Grupa Azoty Compounding Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów, Poland	PLN 5,000	100.00
Grupa Azoty Folie Sp. z o.o.	ul. Chemiczna 118 33-101 Tarnów, Poland	PLN 5,500,000	100.00
Grupa Azoty Koltar Sp. z o.o.	ul. Kwiatkowskiego 8 33-101 Tarnów, Poland	PLN 32,760,000	100.00
Grupa Azoty PUŁAWY	al. Tysiąclecia Państwa Polskiego 13 24-110 Puławy, Poland	PLN 191,150,000	95.98
Grupa Azoty SIARKOPOL	Grzybów, 28-200 Staszów, Poland	PLN 55,000,000	98.78
Grupa Azoty KĘDZIERZYN	ul. Mostowa 30 A skr. poczt. 163 47-220 Kędzierzyn-Koźle, Poland	PLN 285,064,300	93.48
Grupa Azoty POLICE	ul. Kuźnicka 1 72-010 Police, Poland	PLN 750,000,000	66.00
Grupa Azoty PKCh Sp. z o.o.	ul. Kwiatkowskiego 7 33-101 Tarnów, Poland	PLN 85,630,550	63.27

The parent and its subsidiaries as at June 30th 2017



2. Assets and financial position

2.1. Assessment of factors and non-recurring events having a material impact on the Grupa Azoty Group's operations and financial performance

Impairment losses at Grupa Azoty PUŁAWY's subsidiary – Elektrownia Puławy Sp. z o.o.
On March 31st 2017, Elektrownia Puławy Sp. z o.o., resolved to close the tender procedure for award of general contract for the construction of a 400 MWe CCGT without selecting a winning bid. The decision was approved by the Grupa Azoty PUŁAWY's Management and Supervisory Boards.
Elektrownia Puławy Sp. z o.o. recognised a PLN 9,113 thousand impairment loss related to the capital expenditure incurred on the project as at March 31st 2017, which had an impact on the Group's consolidated profit or loss.

Impairment loss recognised by African Investment Group S.A., a subsidiary of Grupa Azoty POLICE
On August 1st 2017, African Investment Group S.A. ("AFRIG S.A.") resolved to recognise a write-down on the amount of expenditure on exploration for and evaluation of mineral deposits as a correction of prior period error, in an amount of XOF 4,241,955 thousand (equivalent of PLN 28,349 thousand translated at the average exchange rate for the period of twelve months ended December 31st 2016). The write-down of PLN (28,349 thousand) was recognised as a correction of prior period error under costs of the previous year in the consolidated financial statements for the first half of 2017.

Impairment loss recognised by Zakłady Azotowe Chorzów S.A., a subsidiary of Grupa Azoty PUŁAWY
On August 4th 2017, the management board of Zakłady Azotowe Chorzów S.A. passed a resolution to recognise a PLN 14.7m impairment loss on the assets of the fat processing unit. In accordance with IAS 36, the company's management board identified indications that the recoverable amount of those assets may have decreased below their respective carrying amounts. The fat processing unit continues to operate below its full processing capacity. While the company recently recorded an increase in the average selling price of its main oleochemicals, prices of the key raw material (liquid animal fat) remain high, which significantly limits the company's ability to generate cash inflows from the sale of stearine and other oleochemicals.
Having considered these indications, the management board of Zakłady Azotowe Chorzów S.A. tested property, plant and equipment and intangible assets for impairment. The test confirmed the validity of the decision to recognis another impairment loss on the assets of the fat processing unit.
The effect on consolidated EBIT of the Grupa Azoty Group was PLN (14.7m), and was recognised in the Group's consolidated financial statements for the first half of 2017.
It was another impairment loss on the assets of the fat processing unit at Zakłady Azotowe Chorzów S.A. The first impairment loss, of PLN 18.4m, was accounted for in the financial statements for 2015. The second impairment loss, of PLN 10m, was accounted for in the financial statements for 2016.
On August 16th 2017, the Extraordinary General Meeting of Zakłady Azotowe Chorzów S.A. passed a resolution to approve the remedial programme for 2017−2027, and a resolution concerning the company's continuing as a going concern.

Exchange rates
The key factors with a bearing on the Grupa Azoty Group's financial results the first half of 2017 included acceleration of the GDP growth, falling unemployment and good condition of the state finances. The above factors, combined with good growth prospects for the eurozone economies as well as stabilization of growth in China and the US, supported global risk appetite in the six months to June 2017.
In the reported period, the złoty was strongly appreciating against the US dollar and, to a lesser degree, against the euro. As a consequence, in the first half of 2017 the złoty recovered the losses from the closing months of 2016, and rebounded to the level seen prior to its depreciation against the euro and US dollar.
Overall, in the six months to June, the Polish currency strengthened by approximately 4.5% against the euro and by about 11.3% against the US dollar on the year-end 2016. In comparison to the second half of 2016, the average PLN/EUR exchange rate increased by approximately 2.0%, and the average PLN/USD exchange rate − by approximately 0.6%.
The increase in the average exchange rates of the złoty against the euro and the US dollar relative to the previous six-month period was therefore far smaller than the scale of the appreciation as at the

end of the first half of 2017 relative to the end of 2016, and therefore had no material effect on the Grupa Azoty Group's results in the reported period.

The Group monitors its current and planned net currency exposures and manages the resulting currency risk by applying selected hedging instruments. In the reporting period, the main tools used by the Grupa Azoty Group were: natural hedging; factoring and discounting of receivables denominated in foreign currencies; and currency forwards covering up to 80% of the remaining currency exposure with time horizons of less than 6 months, and up to 50% of the remaining currency exposure with time horizons between 6 and 12 months.

Pursuant to the 'Policy of Financial Risk Management (Currency Risk and Interest Rate Risk)', the Grupa Azoty Group may enter into hedging transactions with horizons of up to 24 months, provided such transactions reduce the adverse effect of fluctuations in exchange rates on the cash flows (and complies with the adopted hedging limits and hedge ratios and acts consistently with the applied VaR methodology).

Execution of currency hedging transactions where the hedge horizon is more than 24 months or the transaction does not conform to the financial risk management policy requires approval by the Management Board based on the recommendation of the Finance Committee.

In the first half of 2017, the Group used some hedging tools in the form of EUR and USD swap forwards, as an addition to the contracts executed in 2016, reflecting its planned net exposure in both currencies.

The Grupa Azoty Group reported a PLN 10,928 thousand gain on hedging transactions realised in the first half of 2017. The result on revaluation of hedging instruments was positive at PLN 19,996 thousand.

In the first half of 2017, the Group's aggregate result on the settlement of hedging transactions and revaluation of hedging instruments was positive at PLN 30,924 thousand.

On the unhedged net currency exposure, the Group reported a net loss on realised and unrealised foreign-exchange differences of PLN (28,224) thousand.

In the first half of 2017, the Group's aggregate result on foreign exchange differences and currency derivative transactions (including revaluation as at the end of the reporting period) was positive at PLN 2,700 thousand.

The loss on current currency transactions and measurement of foreign-exchange receivables and payables was more than offset by gains on measurement and exercise of currency forwards.

Interest rates in Poland

In the first half of 2017, interest rates in Poland did not change. As announced by the Governor of the National Bank of Poland, in view of the moderately growing inflation, which stayed below the central inflation path projected by the Monetary Policy Council (2.50%), the interest rates are expected to remain unchanged until the end of 2017 to keep the Polish economy on the path of sustainable growth. As a result, the Group's base interest rate (1M WIBOR) in the first half of 2017 stayed at approximately 1.65%, which had a positive effect on stabilising the Group's borrowing costs at a relatively low level, and translated into a solid debt service capacity.

As at June 30th 2017, the Group did not carry any unrealised interest rate risk hedges.

Prices of CO_2 emission allowances

In the first half of 2017, prices of CO_2 emission allowances stabilised compared with their considerably higher volatility a year earlier, and slightly increased year on year.

At the end of the period, the total valuation of CO_2 futures was negative, as some of the contracts were executed on a moving basis in previous periods, when the prices of EUAs were higher; also some of the contracts expiring in the first half of 2017 were settled.

In the six months to June 2017, the Group reported a PLN (4,377 thousand) loss on valuation of futures for the purchase of CO_2emission allowances.

Hedge accounting

Since September 28th 2016, the Group has applied cash flow hedge accounting. The hedged items are highly probable future proceeds from sale transactions in the euro, which will be recognised in profit or loss in the period from December 2018 to June 2025. The hedging covers currency risk. The hedge is a euro-denominated credit facility of EUR 127,134 thousand as at June 30th 2017, repayable from December 2018 to June 2025 in 14 equal half-yearly instalments of EUR 9,081 thousand each. As at June 30th 2017, the fair value of the facility was PLN 541,644 thousand. As at June 30th 2017, the hedging reserve included PLN 11,953 thousand on account of the effective hedge. In the first half of 2017, the Group did not reclassify any hedge accounting amounts from other comprehensive income to the statement of profit or loss.

2.2. Market overview

The world economy is showing signs of a steady recovery, and that also includes economies which are Poland's main trading partners. However, the global economic growth is still lower than before the financial crisis. In countries of Central and Eastern Europe, including in Poland, the growth has been driven by growing consumption.
Following strong rises early in the year, the growth of consumer prices in Poland stabilized at a moderate level, as did prices on a wider global market. The stabilization of global inflation was supported by the gradual waning of effects of earlier commodity price increases and economic recovery.
In the first half of 2017, prices of energy commodities fell as the oversupply of oil from shale formations in the US pushed crude prices down despite continued production cuts by OPEC.

AGRO FERTILIZERS

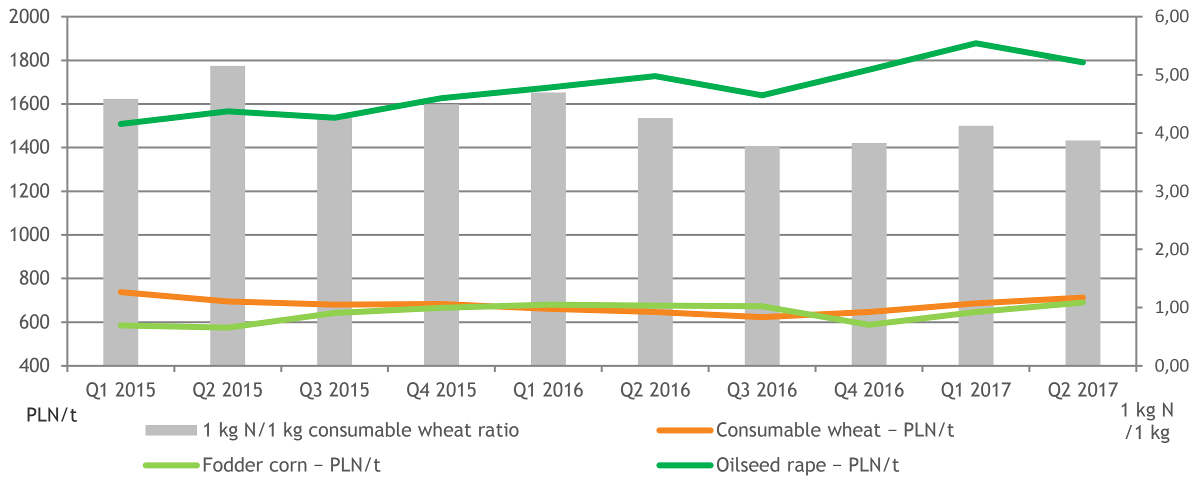
Economic conditions in agriculture

In the first half of 2017, the April frosts caused considerable damage to fruit tree orchards (estimated at even above 50%), and to vegetable and rapeseed plantations. However, according to the Polish Institute of Agricultural and Food Economics (IERIGŻ), the adverse weather conditions will have only a minor effect on the grain harvests in the country. There was little interest for farmers to conclude contracts for the supply of cereals from this year's harvest, as the prices offered by traders and processors were viewed by most farmers as unattractive.
In the first half of 2017:

- the continuing high stocks of grains globally and favourable EU harvest growth forecasts for the 2017/18 season still do not provide any footing for price increases (as at the end of the 2017/18 season, the global stocks of grains are expected to be around 480m tonnes, i.e. 6.8% down on the previous season),
- in Poland, there was a 7% year on year increase in grain prices, a slightly higher price increase – of 8% – in the case of oilseeds, while prices of fodder plants declined (-1%),
- the spring recovery in demand drove up the prices of means of agricultural production, and the prices of yield drivers, mainly nitrogen fertilizers and plant protection products, increased,
- the strengthening of the euro against the dollar effectively limited the potential for grain exports; as a result, in Paris prices of grains contracts and oilseed rape fell,
- in Western European countries, in spite of certain periods of drought and late spring frosts, the condition of winter oilseed rape at the key producers of this grain was satisfactory.

(all amounts in PLN '000 unless indicated otherwise)

Wheat, corn and oilseed rape prices



Source: the Ministry of Agriculture and Rural Development.

Declining oil prices in the global markets do not allow any increase in prices of oilseeds, and about 60% of the oilseed rape in the European Union is processed into biofuel.

	Average H1 2016 PLN/t	Average H1 2017 PLN/t	H/H %	June 2017 PLN/t	2017 MIN PLN/t	2017 MAX PLN/t
Consumable wheat	654	699	7	729	675	729
Fodder corn	678	668	-1↓	710	635	710
Rapeseed	1,702	1,834	8	1,715	1,715	1,890

Source: the Ministry of Agriculture and Rural Development.

By June 12th 2017, the Agency for Restructuring and Modernisation of Agriculture disbursed to farmers PLN 14.574bn, i.e. 99.77% of the planned pool of funds allocated to direct subsidies for 2016. Direct subsidies are usually spent first on purchase of means of production (45.8%), current living needs (31.4%), capital expenditure by farmers (24.9%).

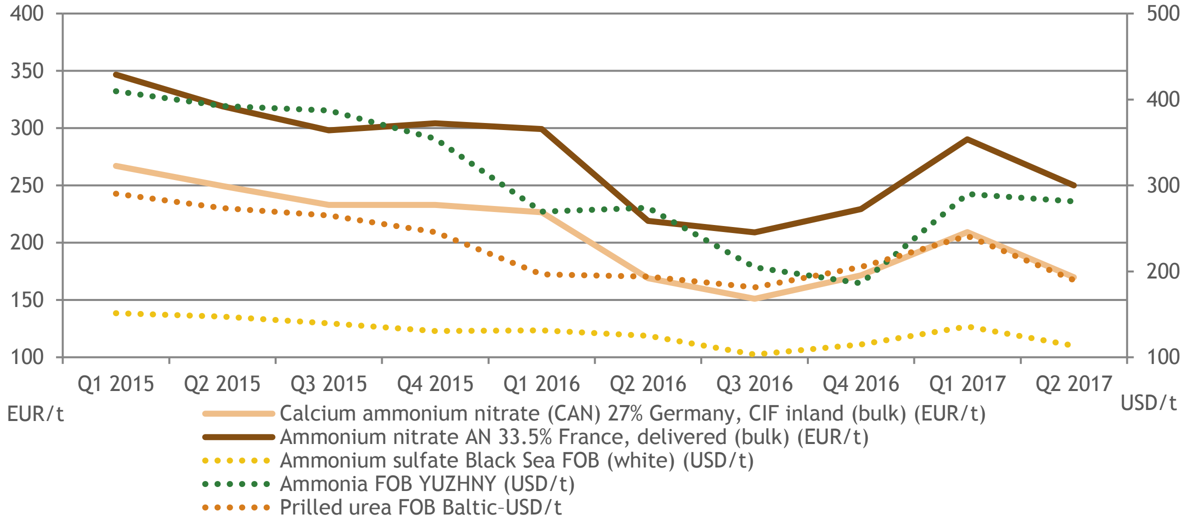
Nitrogen fertilizers

In the first quarter 2017, domestic demand for mineral fertilizers was on a par with that reported a year before. As in previous years, the demand gradually improved as the planting season progressed, and then began to decline after the completion of subsequent applications. Prices of nitrogen fertilizers – including ammonium nitrate, calcium ammonium nitrate and ammonium sulfate – are largely demand driven. Prices of urea grew on limited supply: in January, the production in China was reduced to 55% of the country’s capacity, and in Ukraine urea plants in Cherkassy were shut down due to gas shortage.

Ammonia prices were also driven by declining supply. Ammonia prices grew on the back of reduced supply, which followed from restrictions on ammonia transit from Russia through Ukraine to the port of Yuzhny (Black Sea), production-related problems experienced by a number of producers and exporters (Trinidad, Algeria, Ukraine, Qatar, Russia) and growing demand in the US and Asia.

(all amounts in PLN '000 unless indicated otherwise)

Prices of nitrogen fertilizers (urea, CAN, AN, AS,) and ammonia



Source: ICIS, Argus FMB, Profercy.

A clear downward trend in ammonia prices in the second quarter of 2017 was caused by the situation on the US market. The contributing factors included unfavourable weather conditions, significantly reduced demand for ammonia for agricultural purposes, large stockpiles accumulated in the distribution network, and increased supply following commissioning of two new ammonia units. As a consequence, from a large importer, the US have become a significant exporter of ammonia. US producers began to export ammonia from the new units, including to North Africa and Europe, and the fall in ammonia prices in the US depressed prices elsewhere in the world. Nevertheless, ammonia prices are still 5% higher year on year.

	Average H1 2016 EUR/t	Average H1 2017 EUR/t	H/H %	June 2017 EUR/t	2017 MIN EUR/t	2017 MAX EUR/t
CAN 27% Germany CIF inland (bulk)	198	190	-4↓	158	158	210
AN 33.5% France, delivered (bulk)	259	270	4	222	222	294
			H/H	USD/t	USD/t	USD/t
Ammonia (FOB Yuzhny)	272	286	5	239	239	315
Urea (FOB Baltic)	195	215	10	187	182	253
AS (Black Sea FOB white)	128	125	-2	110	110	140

Source: ICIS, Argus FMB, Profercy.

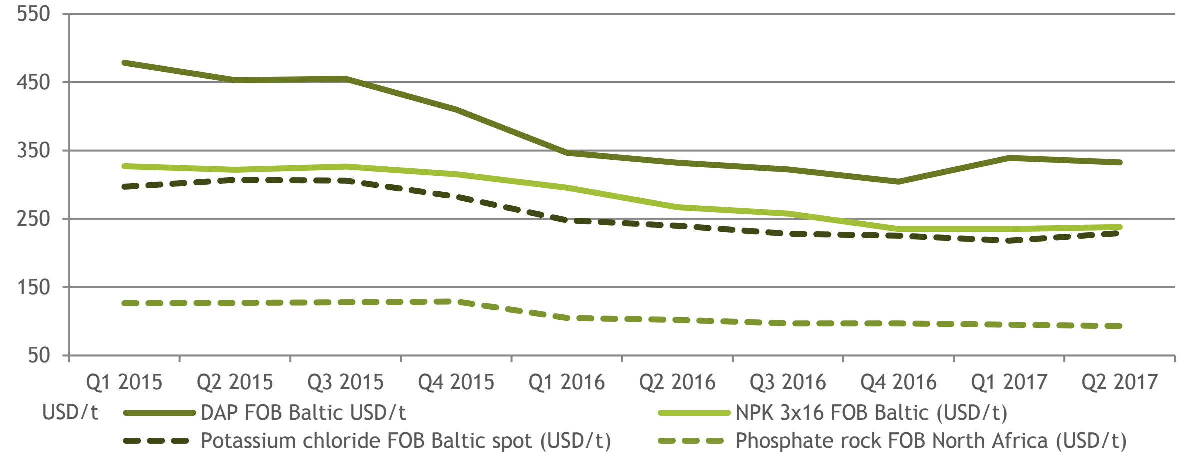
In the reporting period, the demand for nitrogen fertilizers varied across Western Europe countries. Despite the spring application season, some markets reported only a slight recovery which steadily declined as the season progressed. Apart from favourable weather conditions, the demand was driven by pricing policies of announced by key market players for the coming months, providing for limited but regular price rises. In the first half of the year, only prices of calcium ammonium nitrate and ammonium sulphate declined, retreating by 4% and over 2%, respectively.

Market of compound fertilizers

In the first quarter of 2017, retail sales of NPK fertilizers in Poland were lower than expected. Farmers increased their stocks significantly in November and December 2016, taking advantage of earlier distribution of payments and price reductions by manufacturers. Prices of the fertilizers were lower than in the six months to June 2016. While March saw a recovery in sales at retail outlets, since April the demand steadily declined. Smaller farms made purchases shortly before application.

(all amounts in PLN '000 unless indicated otherwise)

Prices of compound fertilizers (NPK, DAP), potassium chloride and phosphate rock



Source: WFM, FERTECON, Profercy.

As in previous years in Poland, May was a period of slowdown between peak seasons in sales of NPK fertilizers. Discounts on NPK fertilizer prices, offered by manufacturers in May and June, propped up demand, chiefly from large farms which took the opportunity to stock up for the autumn application season. Smaller and less prosperous farms typically purchase NPK fertilizers only after the sale of their agricultural produce. NPK fertilizers imported from Norway, Finland, Russia and Belarus were available on a regular basis in Poland. There was growing demand among farmers for NPK blends, as their prices are usually 10−15% lower than the prices of compound NPK fertilizers.
Except for local and periodic instances of higher demand, the first half of 2017 saw reduced demand for NPK fertilizers across most European markets. Low incomes in agriculture significantly reduced farmers’ purchasing power, even in such markets as Germany or France.

	Average H1 2016 USD/t	Average H1 2017 USD/t	H/H %	June 2017 USD/t	2017 MIN USD/t	2017 MAX USD/t
DAP (FOB Baltic)	339	336	-1↓	327	317	352
NPK3x16 (FOB Baltic)	281	237	-16↓	237	235	240
Potassium chloride (FOB Baltic spot)	244	224	-8↓	232	215	232
Phosphate rock (FOB North Africa)	103	94	-9↓	92	92	97

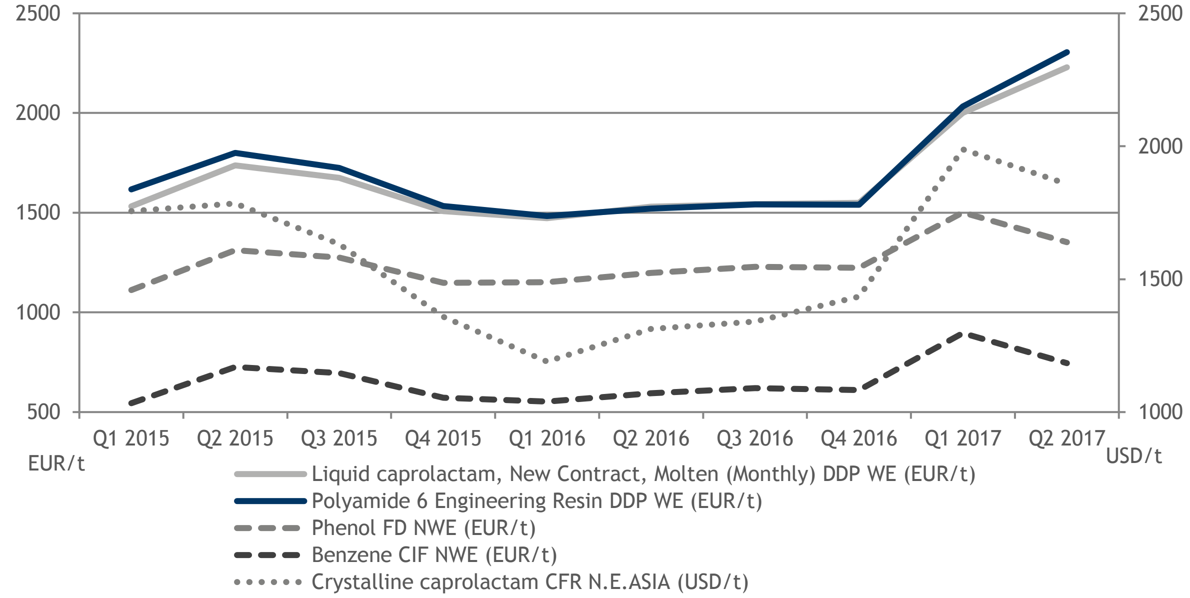
Source: WFM, FERTECON, Profercy.

Between December 2016 and February 2017, DAP fertilizer prices went up, but in March the trend reversed. In comparison with the first half of 2016, the prices were down by 1%.
Prices of raw materials used in production of compound fertilizers also followed a downward trend, with phosphate rock and potassium chloride declining by 9% and 8%, respectively, year on year. The prices of potassium chloride were largely driven by policies of the largest producers who sought to maintain high prices and control supply through periodic shutdowns of their production facilities.
In the six month to June 2017, major suppliers from Morocco, China, Peru, Algeria, Togo and Russia adjusted prices of phosphate rock, bringing them close to the 2009 level. In the second quarter of 2017, global supply of phosphate rock was disrupted, with a phosphate rock mine in Peru (Bayovar) flooded and production in China significantly reduced due to environmental reasons. Prior to the output cuts, China was the largest self-sufficient producer of phosphates; with the restrictions in place, prices on the domestic market increased (10%) and China began to import phosphates from Morocco.

PLASTICS

Polyamide 6 chain
In the reporting period, the market situation continued to be shaped by supply and demand forces and, to a lesser extent, by rising oil prices, which affected the prices of petroleum products.
Oil prices increased by 28% year on year, leading to a surge in prices of benzene (+43%, FOB, NWE) and caprolactam (+41%, DDP, WE), and exerting additional pressure on prices of PA6 (+44%, DDP, WE) in Europe.
In the same period the prices of phenol did not change as much, rising by 21% (FD, NWE), largely due to higher oil prices and seasonal supply fluctuations (with the demand remaining stable).

Prices of PA6, caprolactam, benzene and phenol



Source: TECNON, ICIS.

In the first half of 2017, prices of caprolactam in Asia (CFR, NE Asia) were 54% higher year on year, at EUR 1,251 per tonne.
The situation on the caprolactam and polyamide 6 markets was mostly attributable to shortages of those materials resulting from unscheduled downtime, maintenance inspections and repairs of production plants, and changes in the legal and legislative regimes on the Asian market.
Thus, caprolactam price were largely driven by the demand-supply balance, and not only by prices of oil-based feedstock.
Such market conditions allowed manufacturers, previously constrained by structural oversupply, to implement some of their profitability improvement plans. The persisting oversupply of polyamide 6 in Europe was gradually reduced on the strong performance of the automotive and textile sectors, which helped improve the trade balance. The spread between PA6 and caprolactam, which on occasion turned negative in the previous year, went up.

(all amounts in PLN '000 unless indicated otherwise)

	Average H1 2016 EUR/t	Average H1 2017 EUR/t	H/H %	June 2017 EUR/t	2017 MIN EUR/t	2017 MAX EUR/t
Benzene (FOB, NWE)	574	821	43	737	737	983
Phenol (FD, NWE)	1,175	1,426	21	1,344	1,344	1,590
Caprolactam (Liq., DDP, WE)	1,502	2,115	41	2,203	1,800	2,243
Polyamide 6 (PA 6) (DDP, WE)	1,502	2,169	44	2,265	1,800	2,325
	USD/t	USD/t	H/H	USD/t	USD/t	USD/t
Caprolactam (CFR, NEAsia)	1,251	1,923	54	1,550	1,550	2,308
	USD/bbl	USD/bbl	H/H	USD/bbl	USD/bbl	USD/bbl
Crude oil (BRENT)	40.83	52.08	28	47.84	47.84	54.50

Source: ICIS, Tecnon, Rzeczpospolita.

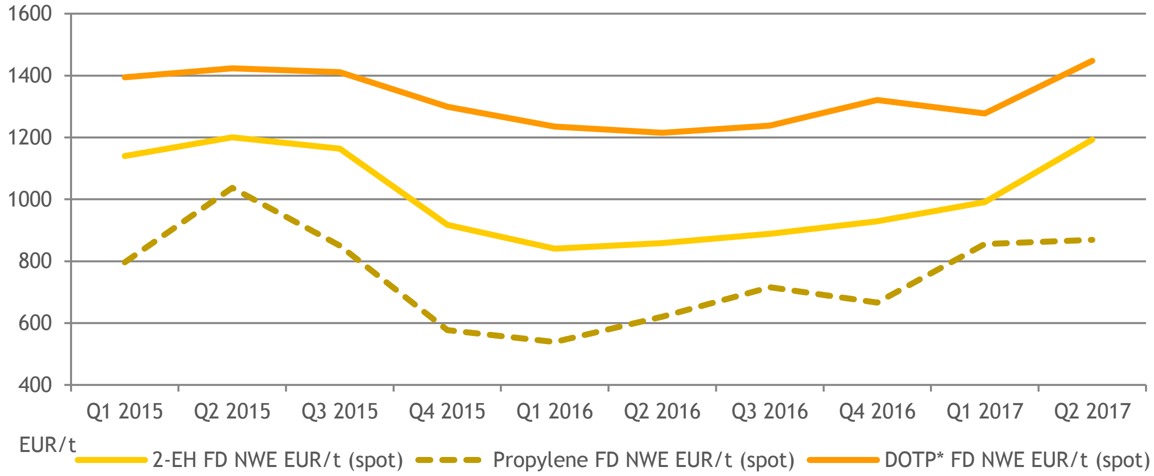
In the six months to June 2017, prices of PA were in a strong uptrend largely attributable to the demand-supply imbalance caused shortages of the product and feedstock (CPL). In the near future, the trend is expected to change on larger and gradually rising supply and the anticipated weakening of demand. Accordingly, prices of caprolactam and PA6 are forecast to seasonally fall by EUR 100–200 per tonne and to slowly rebound in response to increasing demand when the summer holidays are over.

CHEMICALS

OXO product chain
The first half of 2017 saw increased demand for oxo alcohols and plasticizers as well as dynamic changes in the market. In contrast to the excessive supply seen in the six months to June 2016, technical failures and downtime at key production plants caused considerable supply shortages in Europe.
Demand was on the rise in virtually all processing segments, including plasticizers, acrylates, acetates and glycols. Apart from the shortages of OXO alcohols and plasticizers in Europe, the trend was also driven by lower imports from Asia, with spot prices of the products rising far more than prices of the feedstock.

(all amounts in PLN '000 unless indicated otherwise)

Prices of 2-EH, DOTP and propylene



** January 18th 2017 – Changes in DOTP prices follow from a different method of obtaining prices applied by ICIS to better present the actual market prices; the changes should not be viewed as an indication of an actual change in the plasticizer prices.*

Source: ICIS.

Contract prices of propylene grew in the first half of 2017 driven by continued high demand for propylene, product shortages caused by shutdowns and technical failures at production units, and higher prices of feedstock (kerosene, electricity). Availability of propylene on the market was also reduced by scheduled and unscheduled shutdowns at some manufacturers.

	Average H1 2016 EUR/t	Average H1 2017 EUR/t	H/H %	June 2017 EUR/t	2017 MIN EUR/t	2017 MAX EUR/t
2-EH (FD NWE spot)	849	1,092	29	1,190	929	1,213
DOTP* (FD NWE spot)	1,225	1,380		1,507	1,208	1,507
Propylene (FD NWE spot)	579	862	49	815	725	1,007

** data not comparable due to change in methodology.*

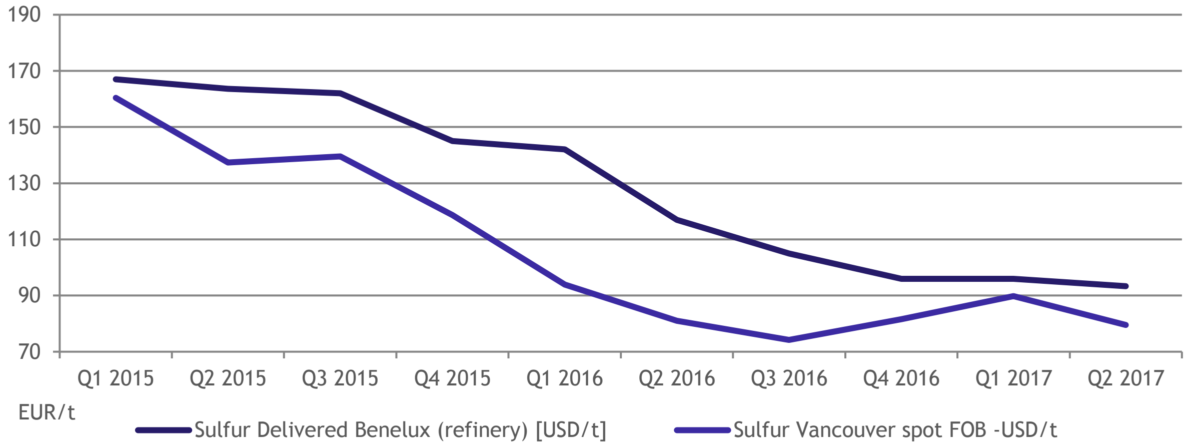
Source: ICIS.

Strong demand, higher prices of propylene, as well as reduced supply of oxo alcohols from early 2017 and of plasticizers in the second quarter of the year pushed both contract and spot prices up. Year on year, the oxo segment enjoyed stronger demand for n-Butanol and Oxoviflex® and virtually unchanged demand for other products, which in the context of good margins led to good results being reported by the segment.

Sulfur
In the first half of 2017, the prices of refined and granular sulfur in Europe were down year on year by 27% and over 2%, respectively.

(all amounts in PLN '000 unless indicated otherwise)

Sulfur prices



Source: FERTECON.

In the first half of 2017, the quarterly prices of sulfur on markets outside Europe were also lower than in the previous year. In the first quarter, the global supply of sulfur fell by approximately 700 thousand tonnes, due to plant failures, e.g. in Russia (Gazprom), and scheduled maintenance shutdowns of desulfurization units in Saudi Arabia and Kuwait. In the first half of 2017, key markets – including the Gulf countries, China, the US and Canada – saw sulfur prices fall.

	Average H1 2016 USD/t	Average H1 2017 USD/t	H/H %	June 2017 USD/t	2017 MIN USD/t	2017 MAX USD/t
Sulfur (Delivered Benelux refinery)	130	95	-27↓	92	92	96
Sulfur (Vancouver spot FOB)	87	85	-2↓	82	74	82

Source: FERTECON.

In China, as a result of sulfur shortages on the domestic market caused by production constraints, prices of imported sulfur imported went up. Stock levels at Chinese ports also increased. High stocks of prilled sulfur, especially in Asia (mainly in China and India), are affecting the global prices of the product. Destocking might favourably change the price trend, provided that the demand for phosphate fertilizers grows and the supply is reduced while maintenance shutdowns are planned in a controlled manner.

Melamine

The first half of 2017 saw increased demand for melamine, particularly from Asia as China had to cut supply levels as a result of maintenance shutdowns and production restrictions imposed by Chinese environmental protection (air pollution) standards.

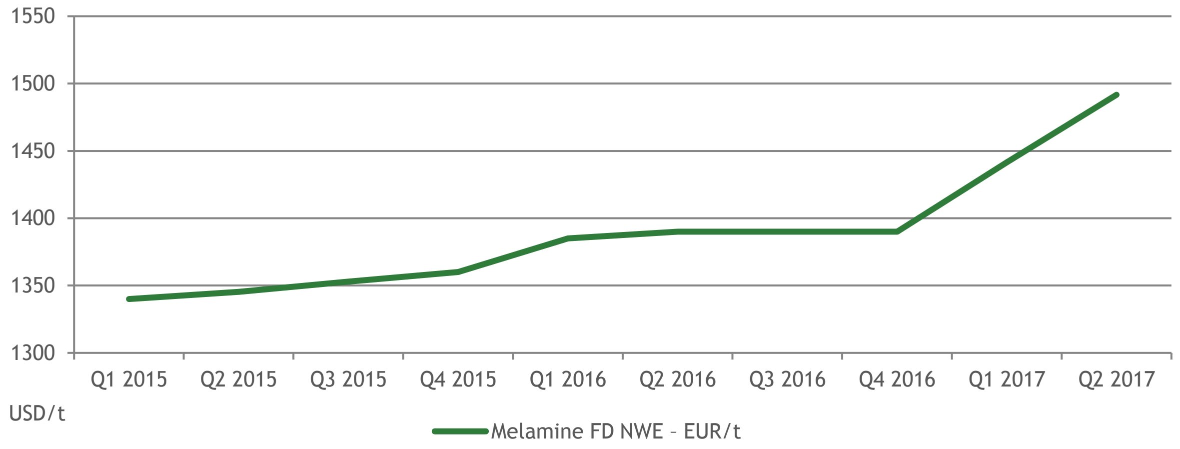
In Europe,

- the demand for melamine in the first half of 2017 peaked in April–June, though the supply was balanced.
- Owing to melamine import restrictions, the sport market was not active, and the product was supplied to customers in line with original contract terms.

Maintenance and repair shutdowns at production plants in Poland, Qatar and China (five plants) were completed.

(all amounts in PLN '000 unless indicated otherwise)

Prices of melamine



Source: ICIS, Global Bleaching Chemicals.

Grupa Azoty PUŁAWY is planning to overhaul its melamine production line III in August 2017. In the first half of 2017, the contract prices of melamine in Europe rose by EUR 76 per tonne (5.5%) year on year.

	Average H1 2016 EUR/t	Average H1 2017 EUR/t	H/H %	June 2017 EUR/t	2017 MIN EUR/t	2017 MAX EUR/t
Melamine (FD NWE)	1,388	1,467	6	1,500	1,425	1,500

Source: ICIS, Global Bleaching Chemicals.

In H2 2017, demand for melamine is expected to be driven by a number of scheduled maintenance shutdowns of production plants (both in Europe and Asia) and, accordingly, prices are expected to increase further.

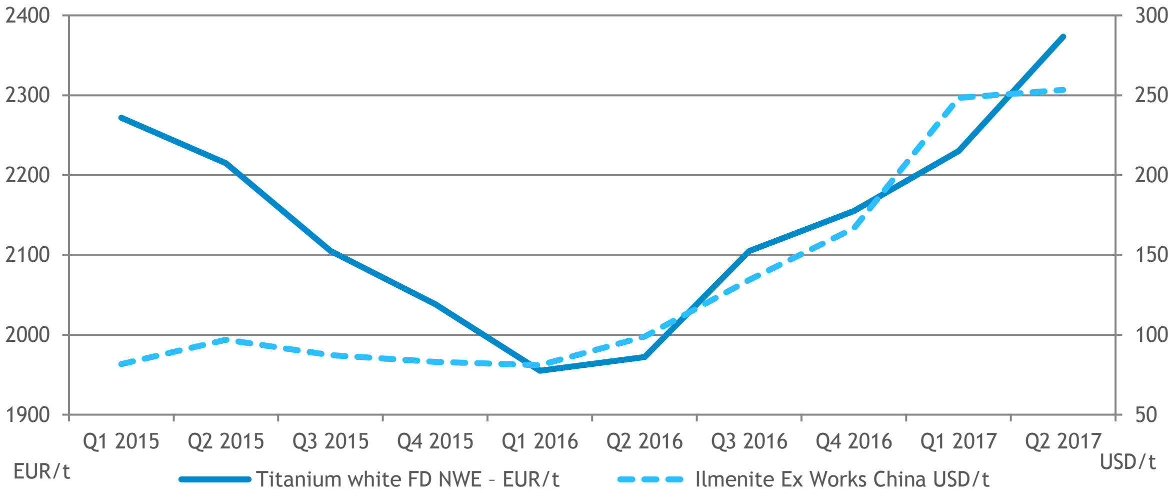
Pigment chain

In the first quarter of the year there is usually less demand for white titanium, which then grows in the second quarter. This year however, there was virtually no seasonal slowdown, with the demand for and prices of titanium white rising. The prices went up by 17% year on year. In Europe, the situation was undoubtedly attributable to the low level of stocks at titanium white producers, a seasonal increase in demand, reduced supply of imported titanium white, and a critical failure at a production plant in Finland (10% share in Europe's titanium white supply).

Prices were also on the rise in the U.S. (by USD 130–150 per tonne), China and other Asian markets, driven by the same factors as in Europe, i.e. low stock levels and increased demand compared with the previous year. For environmental reasons, many Chinese titanium white producers have been forced by the government to halt production and will need time to bring their plants in line with the new requirements. Titanium white production in China, a country responsible for 30% of the global production capacity, is estimated to have fallen by 15%. No significant increase in titanium white supply in the country should be expected in the near future.

(all amounts in PLN '000 unless indicated otherwise)

Market prices of titanium white and ilmenite



Source: ICIS, CCM.

In April this year, the largest titanium white producers, encouraged by continuously strong demand, reduced supply and long delivery times, decided to increase prices to boost profitability following poor performance over the past two years.

	Average H1 2016 EUR/t	Average H1 2017 EUR/t	H/H %	June 2017 EUR/t	2017 MIN EUR/t	2017 MAX EUR/t
Titanium white (FD NWE)	1,963	2,302	17	2,445	2,230	2,445
	USD/t	USD/t	H/H	USD/t	USD/t	USD/t
Ilmenite (ex Works China)	90	251	179	200	200	290

Source: ICIS, CCM.

Following a slump in early 2016, the prices of titanium white feedstock (ilmenite, titanium slag) continued to rise through the end of April 2017 on production cuts in China and the resulting rise of imports to the country. The rising prices of titanium white also gave feedstock producers reasons to increase their prices. May saw a long-awaited price adjustment. On the representative Chinese market prices of slag and ilmenite were adjusted by an average of 5% in May, followed by another adjustment as early as June. Relative to May, ilmenite and titanium white prices on the Chinese market fell by 25% and 12%, respectively. Year on year, ilmenite prices almost doubled.

Technical-grade urea

Technical-grade urea is mostly used as a component of furniture adhesives and the NOXY® (AdBlue®) solution. Despite global urea prices trending down in the reporting period, the demand for urea for the production of adhesives was stable. Despite significant competition, the NOXY® segment saw a further increase in sales year on year, both in Poland and abroad, largely thanks to the Grupa Azoty Group's coordinated strategy in the RedNOX® segment (products dedicated to the reduction of nitrogen oxides in the automotive segment and industry): NOXY® (32.5% urea solution, Adblue®); Likam® (ammonia water); Pulnox® (40% technical-grade urea solution).

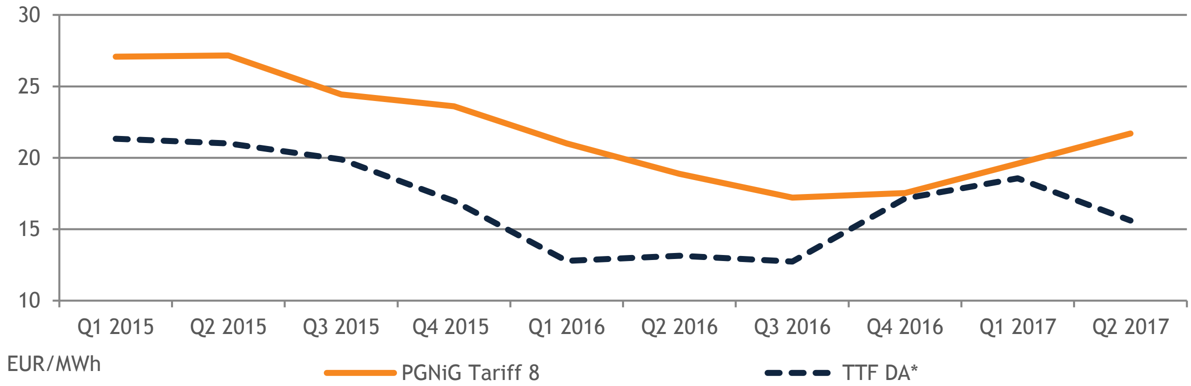
(all amounts in PLN '000 unless indicated otherwise)

ENERGY

Natural gas

In the first half of 2017, spot prices in a German gas hub close to the Polish ranged from EUR 14.76/MWh to EUR 22.68/MWh, initially trending upwards to peak on February 6th, then going down to the low for the period in late March, and finally trending horizontally for the following three months.

Prices of natural gas



**excluding transmission*

Source: PGNiG tariff, ICIS.

Prices were affected mostly by the weather conditions. January and the first decade of February were much colder than usual, resulting in larger-than-expected gas consumption for heating and power generation purposes. Due to the very high prices of coal, gas was replacing it in the energy mix. Gas was withdrawn from storage facilities at a high rate. At the end of February, gas storage levels in Germany fell below 30% of the capacity, down 24% year on year. March, by contrast, was warmer than normal. With stable supply of gas, EU markets became glutted in the third decade of March, which led to a fall in prices and triggered an increase in storage levels and domestic production cuts.
Colder weather in April drove the spot prices of natural gas up after an unexpected rise in coal and oil prices.

	Average H1 2016 EUR/MWh	Average H1 2017 EUR/MWh	H/H %	June 2017 EUR/MWh	MIN 2017 EUR/MWh	2017 MAX EUR/MWh
PGNiG tariff	19.9	20.6	4	21.7	19.4	21.8
TTF DA net of transmission costs	13.0	17.1	32	15.1	15.1	20.0

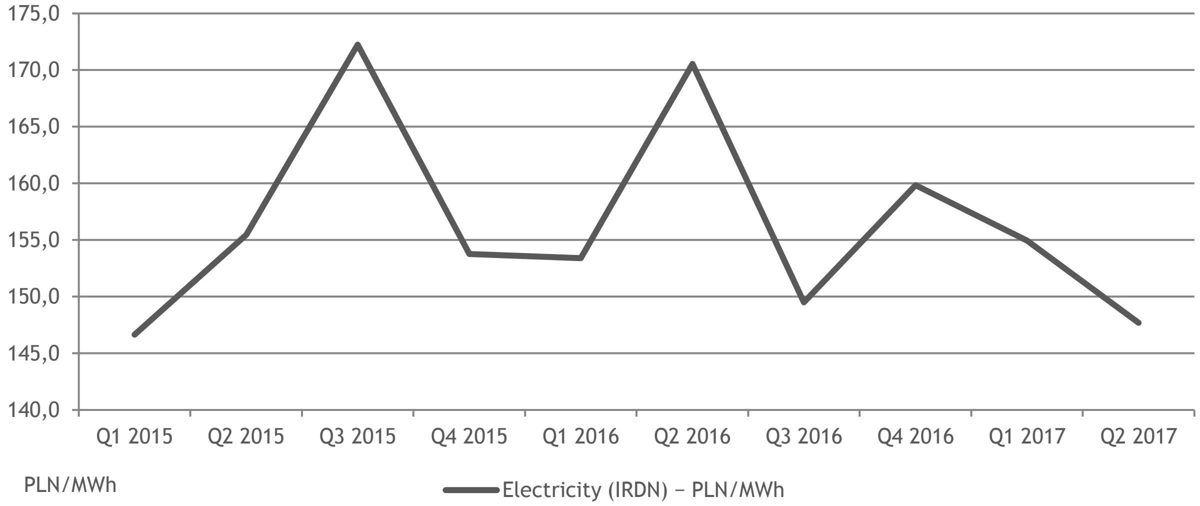
Source: PGNiG tariff, ICIS.

In May, high temperatures and periodically high electricity output from wind farms led to a decrease in gas consumption for energy purposes and slightly lower prices.
In June, a seasonal drop in gas consumption, relatively high LNG supplies to the European market, and low oil prices drove gas prices down. On the other hand, there were other factors driving prices up, including low gas stock levels, an increase in coal prices, and periodic maintenance of gas infrastructure resulting in temporary imbalance in local gas systems. As a consequence, prices of natural gas prices have continued trending sideways,
a situation which currently seems rather stable as no likely triggers or drivers of change are expected. According to the latest mid-term forecasts, the prices will continue at the current levels until late August and increase afterwards.

(all amounts in PLN '000 unless indicated otherwise)

Electricity

Prices of electricity



IRDN – average price weighted by the volume of all transactions on a trading day, calculated after the delivery date for the entire day.

Source: Polish Power Exchange.

	Average H1 2016 PLN/MWh	Average H1 2017 PLN/MWh	H/H %	June 2017 PLN/MWh	2017 MIN PLN/MWh	2017 MAX PLN/MWh
Electricity	166.11	152.05	-8.4	152.43	98.08	214.72

Source: Polish Power Exchange.

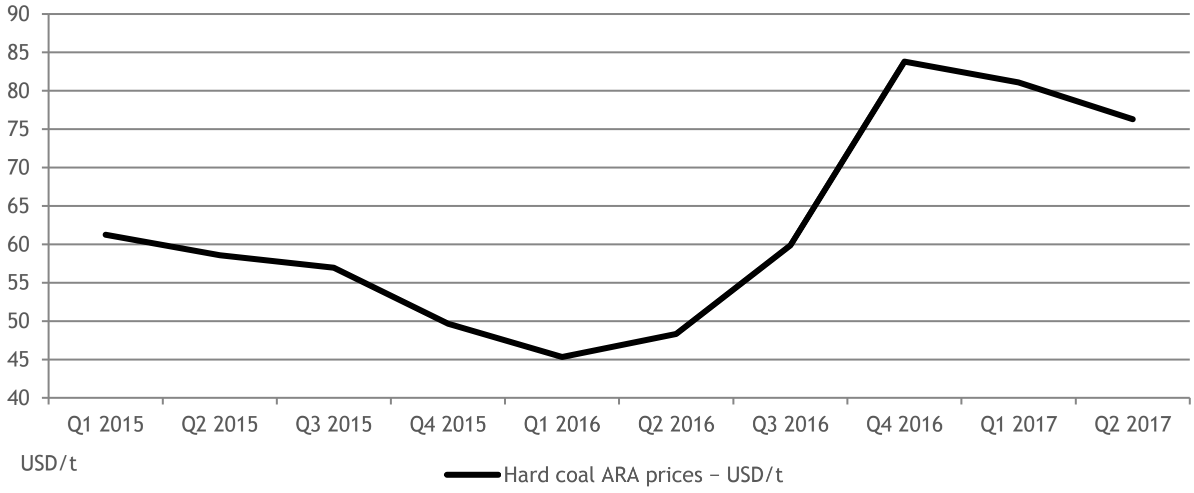
Average prices of electricity on the day-ahead market of the Polish Power Exchange in the first half of 2017 remained relatively low (slightly below PLN 153/MWh), showing a 8% decrease year on year. Relative to the previous quarter, the prices fell by 4%, driven by changeable temperatures, wind power generation volumes, and available capacity of conventional power plants.

Coal

In the first half of 2017, the downward trend continued in the price of coal relative to the end of 2016. Relative to the second half of 2016, coal prices fell 8%, but on a year-on-year basis they rose 68%. The average price of coal in the first half of the year was USD 78/tonne.

(all amounts in PLN '000 unless indicated otherwise)

Prices of hard coal



Source: ARA prices.

Prices of coal in Poland also increased, by 40% year on year.

	Average H1 2016 USD/t	Average H1 2017 USD/t	H/H %	June 2017 USD/t	2017 MIN USD/t	2017 MAX USD/t
Coal	46.8	78.7	68	78.6	71.7	90.9

Source: ARA prices.

Currently, the Polish coal market is not oversupplied. This is an effect of the ongoing restructuring of coal mines and the decline in coal production caused, among other factors, by insufficient investment in the existing mines and closing down of the unprofitable ones.

Analysts forecast that in the second half of 2017 coal prices will continue at their current levels. The equilibrium price is estimated at between USD 65 and USD 70 per tonne, not to be seen within the next two or three years, however.

(all amounts in PLN '000 unless indicated otherwise)

2.3. Key financial and economic data

2.3.1. Consolidated financial information

In the first half of 2017, the Group earned a positive EBITDA of PLN 714,166 thousand and net profit of PLN 377,671 thousand.

Consolidated data

Item	H1 2017	H1 2016 (restated)	change	% change
Revenue	4,869,691	4,634,082	235,609	5.1
Cost of sales	(3,704,601)	(3,459,460)	(245,141)	7.1
Gross profit	**1,165,090**	**1,174,622**	**(9,532)**	**(0.8)**
Selling and distribution expenses	(338,005)	(344,972)	6,967	(2.0)
Administrative expenses	(344,088)	(365,844)	21,756	(5.9)
Profit from sales	**482,997**	**463,806**	**19,191**	**4.1**
Net other expenses	(40,935)	(26,679)	(14,256)	53.4
Operating profit	**442,062**	**437,127**	**4,935**	**1.1**
Net finance income/(costs)	(7,297)	(3,168)	(4,129)	130.3
Share of profit of equity-accounted investees	8,605	7,963	642	8.1
Profit before tax	**443,370**	**441,922**	**1,448**	**0.3**
Income tax	(65,699)	(87,460)	21,761	(24.9)
Net profit	**377,671**	**354,462**	**23,209**	**6.5**
EBIT	**442,062**	**437,127**	**4,935**	**1.1**
Depreciation and amortisation	272,104	256,667	15,437	6.0
EBITDA	**714,166**	**693,794**	**20,372**	**2.9**

Source: Company data.

With revenue up 5.1% year on year and higher cost of sales (up 7.1%), the Grupa Azoty Group reported gross profit. Gross profit increased slightly (up 0.8%) in the first half of 2017, relative to the first half of 2016.
Gross profit net of distribution costs and administrative expenses was PLN 482,997 thousand.
In the first half of 2017, the balance of other income and other expenses was negative, at PLN (40,935) thousand, with no adverse year-on-year effect on EBIT, which came in at PLN 442,062 thousand, up by PLN 4,935 thousand year on year.

2.3.2. Segments' results

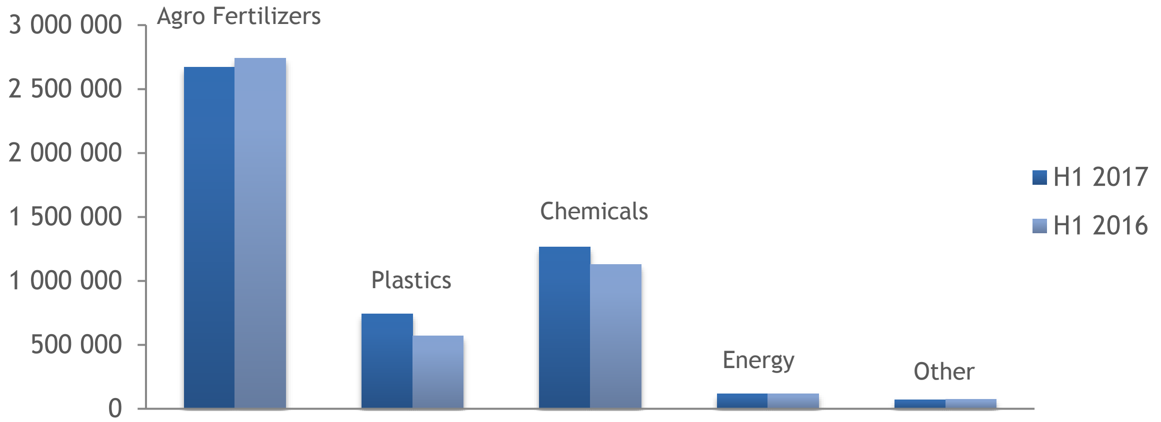
EBIT by segment

	Agro Fertilizers	Plastics	Chemicals	Energy	Other Activities
External revenue	2,672,557	743,063	1,264,386	117,499	72,186
Profit/(loss) on sales	292,518	96,455	117,678	(8,582)	(15,072)
EBIT	291,550	97,255	99,623	(22,056)	(24,310)

Source: Company data.

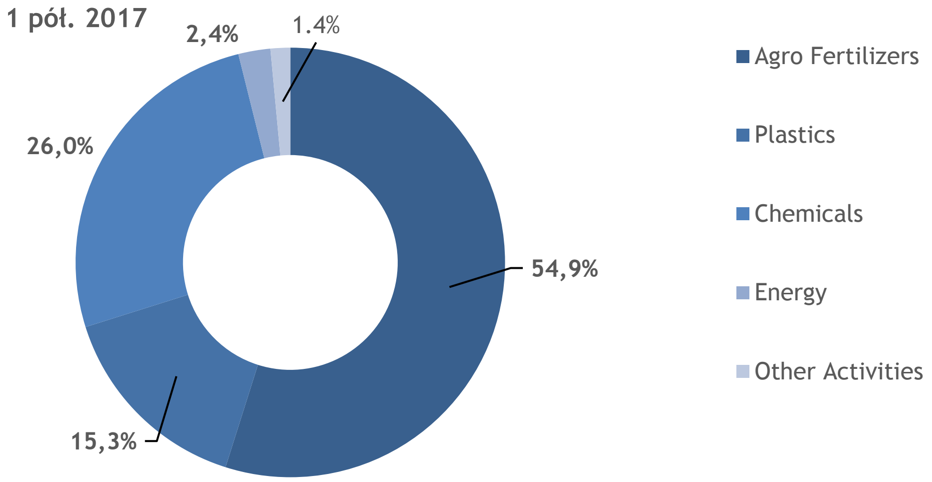
The Group's profit on sales of products in the first half of 2017 was determined primarily by the market situation in the Agro Fertilizers segment. Year on year, revenue decreased 2.5%, 1.1% and 3.0% in the Agro Fertilizers, Energy and Other Activities segments, respectively, while in the Plastics segment and the Chemicals segment revenue increased by 30.1% and 12.1%, respectively.

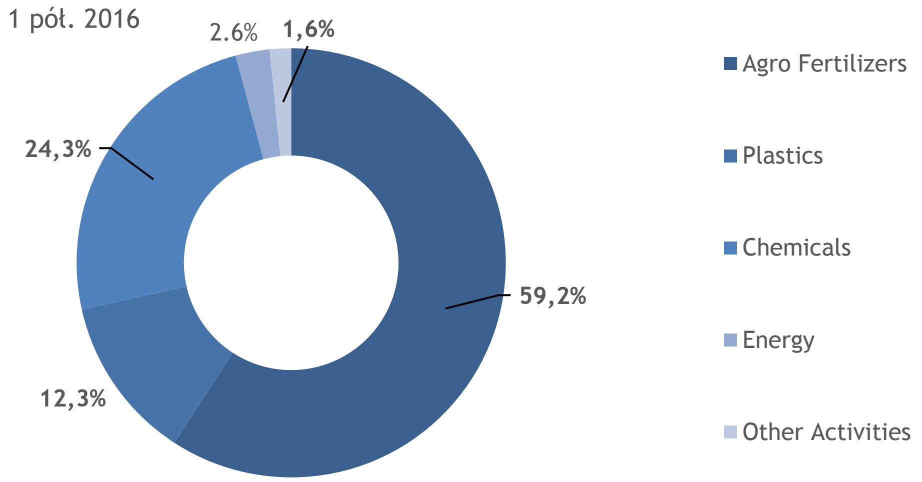
Revenue by segment



Source: Company data.

Revenue by segment





Source: Company data.

The shares of individual segments in total revenue changed compared with the first half of 2016: the contribution from the Plastics grew, by 3.0pp, while the shares of the other segments fell.

(all amounts in PLN '000 unless indicated otherwise)

Agro Fertilizers

In the first half of 2017, revenue in the Agro Fertilizers segment was PLN 2,672,557 thousand and accounted for 54.9% of the Group's total revenue. The segment's revenue and its share in the Group's total revenue declined relative to the first half of 2016.
EBIT reported by the Agro Fertilizers segment was positive at PLN 291,550 thousand.
Sales on the domestic market accounted for approximately 68.4% of the segment's revenue.

Plastics

Revenue in the Plastics segment was PLN 743,063 thousand and accounted for 15.3% of the Group's total revenue in the first half of 2017. The revenue was up 30.1% year on year, contributing to profit on sales and positive EBIT at PLN 97,255 thousand.
More than 90.3% of the segment's revenue was derived from sales on foreign markets.

Chemicals

In the first half of 2017, revenue in the Chemicals segment amounted to PLN 1,264,386 thousand, having risen year on year. The Chemicals segment's revenue accounted for 26.0% of the Group's total revenue. Revenue increased by 26.0%, contributing to profit on sales and positive EBIT at PLN 99,623 thousand.
Sales on foreign markets accounted for approximately 63.4% of the Chemicals segment's revenue.

Energy

In the first half of 2017, revenue in the Energy segment was PLN 117,499 thousand and accounted for approximately 2.4% of the Group's total revenue. Year on year, the segment's revenue decreased slightly. EBIT reported by the Energy segment was negative.

Other Activities

In the first half of 2017, revenue in the Other Activities segment amounted to PLN 72,186 thousand and accounted for 1.4% of the Group's total revenue. The segment's EBIT was negative in the first half of 2017.

2.3.3. Operating expenses

In the first half of 2017, operating expenses were reported at PLN 4,434,920 thousand, having increased by PLN 182,246 thousand year on year. There was an increase in raw materials and consumables used, depreciation and amortisation, as well as cost of salaries and wages, including overheads, which led to a rise in total operating expenses. Services, taxes and charges, as well as other costs decreased.

Operating expenses by nature of expense

	H1 2017	H1 2016 (restated)	change	% change
Depreciation and amortisation	270,763	254,471	16,292	6.4
Raw materials and consumables used	2,767,155	2,546,374	220,781	8.7
Services	480,920	501,826	(20,906)	(4.2)
Salaries and wages, including overheads, and other benefits	672,914	658,060	14,854	2.3
Taxes and charges	159,524	181,836	(22,312)	(12.3)
Other costs	83,644	110,107	(26,463)	(24.0)
Total	**4,434,920**	**4,252,674**	**182,246**	**4.3**

Source: Company data.

Other operating expenses

In the first half of 2017, operating expenses other than cost of raw materials and consumables used accounted for 37.6% of total operating expenses, down from 40.1% in the corresponding period of 2016.

(all amounts in PLN '000 unless indicated otherwise)

Structure of other operating expenses [%]

	H1 2017	H1 2016 (restated)
Depreciation and amortisation	6.1	6.0
Services	10.8	11.8
Salaries and wages, including overheads, and other benefits	15.2	15.5
Taxes and charges	3.6	4.3
Other costs	1.9	2.6
Total	**37.6**	**40.1**

Source: Company data.

2.3.4. Structure of assets, equity and liabilities

In the first half of 2017, the Group's assets rose to PLN 11,158,668 thousand, by PLN 499,988 thousand relative to the end of the first half of 2016. As at June 30th 2017, non-current assets stood at PLN 7,802,203 thousand, and current assets were PLN 3,356,465 thousand.
Year on year, the most significant movements in assets in the first half of 2017 included:

- 10.9% increase in property, plant and equipment,
- 40.7% decrease in other financial assets,
- 9.8% decrease in intangible assets,
- 40.7% decrease in other financial assets.

(all amounts in PLN '000 unless indicated otherwise)

Structure of assets

	H1 2017	H1 2016 (restated)	change	% change
Non-current assets, including:				
Property, plant and equipment	6,599,807	5,949,797	650,010	10.9
Perpetual usufruct of land	482,176	481,889	287	0.1
Intangible assets	464,176	514,461	(50,285)	(9.8)
Equity-accounted investees	105,409	103,897	1,512	1.5
Current assets, including:				
Trade and other receivables	1,251,814	1,194,938	56,876	4.8
Inventories	952,899	912,334	40,565	4.4
Cash and cash equivalents	660,718	645,046	15,672	2.4
Other financial assets	291,003	490,980	(199,977)	(40.7)
Property rights	159,606	169,169	(9,563)	(5.7)
Total assets	**11,158,668**	**10,658,680**	**499,988**	**4.7**

Source: Company data.

Year on year, the most significant movements in equity and liabilities in the reporting period included:

- 23.0% increase in non-current liabilities under borrowings,
- 44.8% decrease in current liabilities under borrowings,
- 28.7% increase in employee benefit obligations.

Structure of equity and liabilities

Item	H1 2017	H1 2016 (restated)	change	% change
Equity	**7,345,032**	**7,105,823**	**239,209**	**3.4**
Non-current liabilities, including:	**2,209,913**	**1,796,640**	**413,273**	**23.0**
Borrowings	1,468,971	1,074,010	394,961	36.8
Employee benefit obligations	323,050	334,344	(11,294)	(3.4)
Deferred tax liabilities	198,648	209,950	(11,302)	(5.4)
Provisions	105,167	102,495	2,672	2.6
Current liabilities, including:				
Trade and other payables	1,347,722	1,316,648	31,074	2.4
Borrowings	88,991	161,218	(72,227)	(44.8)
Government grants received	47,172	56,983	(9,811)	(17.2)
Employee benefit obligations	41,514	32,251	9,263	28.7
Total equity and liabilities	**11,158,668**	**10,658,680**	**499,988**	**4.7**

Source: Company data.

(all amounts in PLN '000 unless indicated otherwise)

2.3.5. Financial ratios

Profitability ratios

	H1 2017	H1 2016 (restated)
Gross profit margin	23.9%	25.3%
EBIT margin	9.1%	9.4%
EBITDA margin	14.7%	15.0%
Net profit margin	7.8%	7.6%
ROA	3.4%	3.3%
ROCE	4.6%	4.9%
ROE	5.1%	5.0%
Return on non-current assets	4.8%	4.9%

Source: Company data.

Ratio formulas:
Gross profit margin = gross profit (loss) / revenue (statement of comprehensive income by function)
EBIT margin = EBIT / revenue
EBITDA margin = EBITDA / net revenue
Net profit margin = net profit (loss) / revenue
Return on assets (ROA) = net profit (loss) / total assets
Return on capital employed (ROCE) = EBIT / TALCL, that is EBIT / total assets less current liabilities
Return on equity (ROE) = net profit (loss) / equity
Return on non-current assets = net profit (loss) / non-current assets

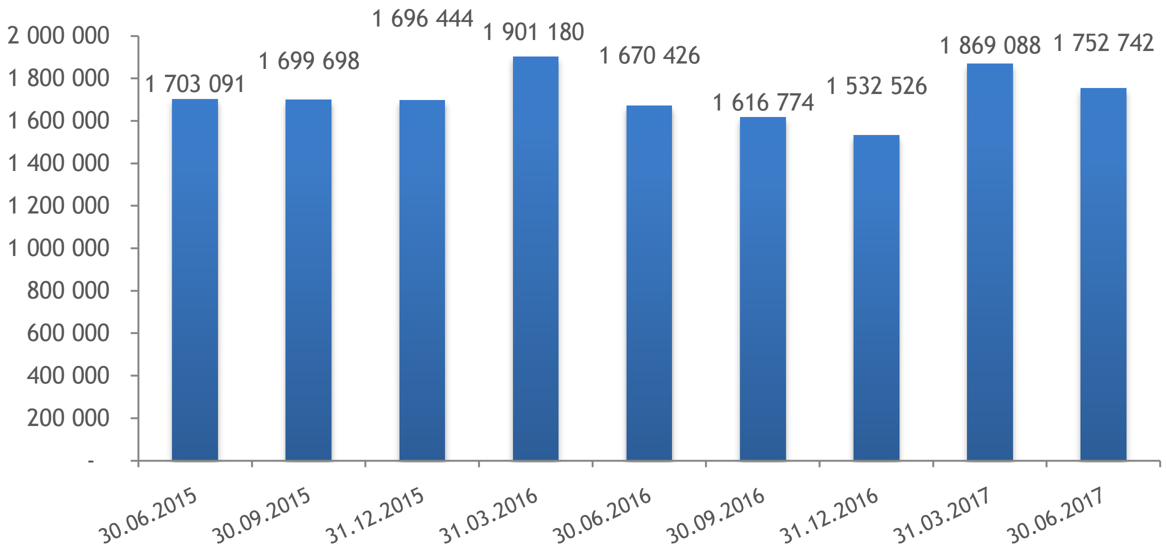
Liquidity ratios

	H1 2017	H1 2016 (restated)
Current ratio	2.1	2.0
Quick ratio	1.5	1.4
Cash ratio	0.6	0.6

Source: Company data.

Ratio formulas:
Current ratio = current assets / current liabilities
Quick ratio = (current assets - inventories - current prepayments and accrued income) / current liabilities
Cash ratio = (cash + other financial assets) / current liabilities

Changes in net working capital



(all amounts in PLN '000 unless indicated otherwise)

Source: Company data.

Operational efficiency ratios

	H1 2017	H1 2016 (restated)
Inventory turnover	46	47
Average collection period	46	46
Average payment period	65	69
Cash conversion cycle	27	25

Source: Company data.

Ratio formulas:
*Inventory turnover = inventories * 180 / cost of sales*
*Average collection period = trade and other receivables * 180 / revenue*
*Average payment period = trade and other payables * 180 / cost of sales*
Cash conversion cycle = inventory turnover + average collection period - average payment period

Debt ratios

Ratio	H1 2017	H1 2016 (restated)
Total debt ratio	34.2%	33.3%
Long-term debt ratio	19.8%	16.9%
Short-term debt ratio	14.4%	16.5%
Equity-to-debt ratio	192.6%	200.0%
Interest cover ratio	2,525.4%	2,668.1%

Source: Company data.

Ratio formulas:
Total debt ratio = total liabilities / total assets
Long-term debt ratio = non-current liabilities / total assets
Short-term debt ratio = current liabilities / total assets
Equity-to-debt ratio = equity / current and non-current liabilities
Interest cover ratio = (profit before tax + interest expense) / interest expense

2.4. Financial liquidity

The parent and the Group’s leading companies are fully solvent, with a sound credit standing. The Group is able to pay its liabilities as they fall due and to hold and generate free operating cash flows to further support payment of such liabilities in a timely manner.
The liquidity management policy operated by the Grupa Azoty Group consists in maintaining surplus cash and available credit facilities as well as limits under the Intragroup Financing Agreement (one purpose of which is to ensure effective distribution of funds) and ensuring that their level is safe and adequate to the scale of the Group’s business.

2.5. Borrowings

In the first half of 2017, the Group paid all of its borrowing-related liabilities when due, and there is no threat to the Group’s ability to continue servicing its debt.
The Group has access to umbrella overdraft limits under physical cash pooling arrangements and under a multi-purpose credit facility, which may be used by the parent at times of increased demand for funding by the Group companies. The Grupa Azoty Group also has access to bilateral overdraft limits and multi-purpose credit available lines to the Group companies.
The aggregate value of overdraft limits and multi-purpose credit facilities available to the Group as at June 30th 2017 was PLN 489m.
The Group also has access to a syndicated revolving credit facility of PLN 1,500m. As at June 30th 2017, PLN 717m had been drawn down, and the remaining amount of PLN 783m was available to the Group to finance its general needs, including investment projects provided for in the strategy.
In addition, the Group is party to long-term financing agreements: a PLN 550m credit facility from the EIB (as at June 30th 2017, the euro equivalent of the entire PLN 550m limit was drawn under the

facility) and a PLN 150m credit facility from the EBRD (as at June 30th 2017, PLN 10m was drawn under the facility), for the financing of certain investment projects defined in the Group's strategy. Thus the amount available under that facility stood at PLN 140m.
The Group also had access to investment loans totalling PLN 3m.
As at June 30th 2017, the aggregate amount of limits available to the Group under the financing agreements was PLN 1,415m.
The Group's financial condition is sound, and there are no material threats or risks of its deterioration in the future. The Group complies with the uniform covenants of its facility agreements, which enable it to significantly increase financial debt when and as needed.

2.6. Type and amounts of one-off items affecting the assets, equity and liabilities, capital, net profit/loss or cash flows

One-off items which materially affected assets, equity and liabilities, capital, net profit/loss or cash flows were the impairment losses recognised, described in detail in section 2.1.
Save for the above, there were no other one-off items which would materially impact the Group's assets, equity and liabilities, capital, net profit/loss or cash flows.

2.7. Other information

Access to EU funds

- On January 31st 2017, the parent and the Ministry of Development signed an Annex to the agreement of September 2nd 2016 on a PLN 20m grant for the construction of the Research and Development Centre in Tarnów, as part of the support for investment in R&D infrastructure measure of the Operational Programme Smart Growth. Under the Annex, the timetables defined in the agreement were updated.
- March 9th 2017 saw the end of the durability period for the project to upgrade the water demineralisation unit at ZA Puławy S.A., implemented at Grupa Azoty PUŁAWY under an agreement concluded with the National Fund for Environmental Protection and Water Management on May 18th 2009.
- On March 6th 2017, Grupa Azoty Zakłady Azotowe Puławy S.A. received funds of PLN 3,022.52 from the European Agricultural Guarantee Fund (through the Agency for Restructuring and Modernisation of Agriculture). The funds were granted under the single area payment scheme for 2016.
- On February 2nd 2017, Grupa Azoty PUŁAWY and the National Centre for Research and Development of Warsaw signed an agreement on a grant for the project to develop and implement advanced process controls (APC) for the ammonia unit. The maximum amount of the grant is PLN 1,101,760.11.

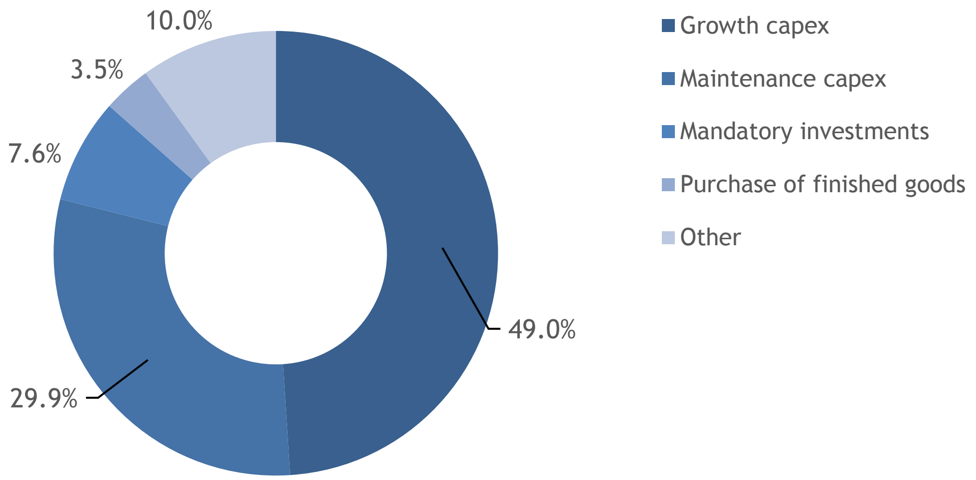
2.8. Key investment projects

The Grupa Azoty Group's capital expenditure in the period from January 1st to June 30th 2017 totalled PLN 501,162 thousand (including amounts spent on components, major overhaul work, and improvements).
Structure of capital expenditure:

- Growth capex PLN 245,432 thousand
- Maintenance capex PLN 150,050 thousand
- Mandatory investments PLN 38,119 thousand
- Purchase of finished goods PLN 17,621 thousand
- Other (components, major overhaul work, other) PLN 49,940 thousand

Structure of the Grupa Azoty Group's capital expenditure in H1 2017

(all amounts in PLN '000 unless indicated otherwise)



Source: Company data.

The Grupa Azoty Group's capital expenditure in the first half of 2017 is presented below:

• Parent	PLN 131,018 thousand
• Grupa Azoty KĘDZIERZYN Group	PLN 102,198 thousand
• Grupa Azoty POLICE Group	PLN 118,969 thousand
• Grupa Azoty PUŁAWY Group	PLN 129,108 thousand
• Grupa Azoty SIARKOPOL	PLN 8,464 thousand
• Grupa Azoty Koltar Sp. z o.o.	PLN 6,260 thousand
• Grupa Azoty ATT Polymers GmbH	PLN 3,461 thousand*)
• Grupa Azoty PKCh Sp. z o.o.	PLN 1,684 thousand

*) translated at the EUR/PLN exchange rate quoted by the National Bank of Poland for June 30th 2017 – EUR 1 = PLN 4.2265 (table No. 125/A/NBP/2017)

(all amounts in PLN '000 unless indicated otherwise)

Key investment projects implemented by the Group – the parent

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2017	Project purpose	Scheduled completion date
Polyamide plant II 80 thousand t/y	320,000	291,657	80,816	To utilise the Group's caprolactam output in a more efficient manner	2017
Granulation plant II	141,000	130,129	16,473	To optimise the mix of fertilizer products and to improve value added in ammonium sulfate	2017
Construction of Grupa Azoty's R&D Centre in Tarnów	74,100	518	403	The project's principal objective is to expand the R&D infrastructure to build the scale of the Group's own research activities, create an environment where results of the research could be verified at pilot-plant scale, and expand the Group's R&D resources.	2018
20 MW pass-out and condensing turbine generator set at the CHP Plant	63,000	53,496	3,415	To optimise the loads of the existing back-pressure turbine generators	2017
To increase the production capacity of the technical-grade nitric acid production unit	59,500	17	17	To reduce the average cost of nitric acid by replacing purchased nitric acid with cheaper internal production, thus achieving independence from external supplies of technical grade nitric acid.	2018
Flue gas desulfurization unit	45,400	32,122	1,487	To reduce sulfur dioxide and dust emissions from CHP Plant's Boiler No. 5, to meet the emission standards laid down in the IED Directive, and to ensure the continuity of power and heat production	2017
Flue gas denitrification unit	44,600	39,659	1,149	To reduce NOx emissions from CHP Plant's Boiler No. 5, to meet the emission standards laid down in the IED Directive, and to ensure the continuity of power and heat production	2017
Utilisation of purge gases from the ammonia synthesis unit	23,000	237	99	To ensure optimum utilisation of purge gases from the Ammonia Synthesis Units 1 and 2 and to increase ammonia output	2018
Construction of a new technical-grade nitric acid storage unit – Phase 1	15,000	12,939	4,372	To replace the existing worn out technical-grade nitric acid storage unit	2017

(all amounts in PLN '000 unless indicated otherwise)

Key investment projects implemented by the Grupa Azoty Group – Grupa Azoty KĘDZIERZYN

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2017	Project purpose	Scheduled completion date
New CHP Plant at Grupa Azoty KĘDZIERZYN − Phase 1	375,059	345,663	58,500	To restore the plant's electricity and heat generation capacity, ti increase its output to satisfy demand for electricity and heat, and to implement solutions that ensure compliance with the increasingly stringent environmental requirements	Completed on March 23rd 2017
Upgrade of the synthesis gas compression unit supplying the Ammonia Plant	180,000	137	77	Rebuilding the capacity of synthesis gas compression for the Ammonia Plant through the installation of new compressors	2020
Special Esters I	43,435	4,764	354	To extend the range of manufactured plasticizers. To construct a new unit to produce several different esters for special applications, in response to the rapidly changing market of plasticisers, particularly palsticisers used as PVC softening agents.	2018
Raw gas compressor (GHH)	31,600	10,209	7,903	To replace the existing depreciated, failure-prone and inefficient K-102 raw gas compressor (GHH), which compresses semi-combusted process gas in the Synthesis Gas Unit, to improve the reliability and availability of the compressor section and the entire OXO Synthesis Gas Unit	2018
Upgrade of the urea unit	30,000	28,515	4,407	To reduce the unit's environmental impact, to build additional production capacity, and to increase process efficiency	2017
Upgrade of the Biological Wastewater Treatment Plant at the Wastewater Treatment and Sewage System Division of the Infrastructure Unit	16,150	12,404	3,476	To substantially improve the quality of treated wastewater – to meet the terms and conditions of the Water Law Decision which defined the permitted pollutant limits for the wastewater discharged to the Odra river, to improve work safety, and to ensure compliance with BAT requirements	2018

(all amounts in PLN '000 unless indicated otherwise)

Key investment projects implemented by the Grupa Azoty Group – Grupa Azoty POLICE

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2017	Project purpose	Scheduled completion date
Propane Dehydrogenation (PDH) unit and related infrastructure (PDH Polska S.A.)	2,700,000	104,890	26,954	To construct a propane dehydrogenation (PDH) unit In addition to the PDH unit, a power generating unit will be constructed and a chemicals terminal will be built at the Police port facilities	2021
Exhaust gas treatment unit and upgrade of the EC II CHP plant	226,000	206,155	29,764	To bring the operation of the CHP plant's units in line with the requirements of Directive 2010/75/EU	2018
Upgrade of the ammonia unit	156,900	156,504	6,292	To reduce energy consumption of the ammonia production process and to improve the operational reliability of individual process nodes	Completed
Change of the phosphoric acid production method	67,000	34,975	7,295	To raise the efficiency of phosphoric acid production and improve the acid's quality by reducing impurities and waste generation	2018
Development of the logistics system at Grupa Azoty POLICE – stage 2	29,738	29,610	4,330	To increase the number of loading bays for loading fertilizers on pallets and in big bags onto trucks, and to expand the available stacking space for both types of fertilizer packaging	2017
Upgrade of TUP-12 (TG1) turbine generator set and auxiliary equipment	16,000	7,330	6,731	To improve reliability, safety, flexibility and quality of turbine control systems	2018
Replacement of the fertilizer drying plant	12,000	242	242	Replacement of the fertilizer drying plant with a new one will guarantee a failure-free fertilizer drying process.	2018

Key investment projects implemented by the Grupa Azoty Group – Grupa Azoty PUŁAWY

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2017	Project purpose	Scheduled completion date
Construction of the Puławy Power Plant*)	1,125,000	9,507	648	The key function of the power plant (CCGT unit) will be high-efficiency cogeneration of heat to be used for technological/heating purposes and electricity	-*)
Upgrade of the existing and construction of new nitric acid units, neutralisation and production of new fertilizers based on nitric acid	695,000	871	327	To raise the efficiency of nitric acid production and to improve the economics of production of nitric acid-based fertilizers	2021
Facility for production of granulated fertilizers based on ammonium nitrate	385,000	80,967	29,038	To improve the quality of fertilizers by applying modern mechanical granulation	2020

(all amounts in PLN '000 unless indicated otherwise)

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2017	Project purpose	Scheduled completion date
Replacement of the TG-2 turbine generator set	99,000	27,929	16,540	To increase the efficiency of electricity and heat cogeneration by replacing the TG-2 30 MWe pass-out and condensing turbine with a new 37 MWe turbine as part of the power system upgrade	2017
To upgrade of steam generator to reduce NOx emissions	70,000	478	478	To reconstruction and bring the steam generator to compliance with new NOx emission standards	2018
To increase volume of and optimise liquid carbon dioxide production	35,300	258	211	To use the existing surplus of raw CO_2 from natural gas processing to produce additional amounts of liquid carbon dioxide with a concurrent increase of storage capacity	2018
To purchase and assemble synthesis gas compressor	24,400	383	260	To increase ammonia production capacity and improve process safety	2019
To upgrade the circulation water network in the Ammonia Department	24,100	2,143	2,142	To improve the technical condition of the circulation water network and ensure reliable supply of water to the cooling systems	2020

*) On March 31st 2017, Elektrownia Puławy Sp. z o.o., conducting the tender procedure to select the general contractor for the construction of a 400 MWe CCGT unit, resolved not to select any bid and to close the procedure. In accordance with resolutions of the Management and Supervisory Boards of Grupa Azoty PUŁAWY of March 31st 2017, the project to construct a CCGT unit will be discontinued.
At the same time, on March 31st 2017, the Company’s Supervisory Board gave the Management Board a general authorisation to engage in activities connected with the preparation of an investment project to construct a hard coal-fired generating unit, including in particular conceptual and analytical work, followed by development of the documentation for the purposes of the contractor selection procedure. Such unit, tailored to the Company’s needs, would secure electricity and heat supplies to Grupa Azoty PUŁAWY.

Key investment projects implemented by the Grupa Azoty Group – Grupa Azoty SIARKOPOL

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2017	Project purpose	Scheduled completion date
Upgrade of the insoluble sulfur unit SN II	19,000	11,185	4,512	To achieve the unit’s design production capacity of 5,000 tonnes pa	2017

Key investment projects implemented by the Grupa Azoty Group – Grupa Azoty ATT Polymers GmbH

Project name	Project budget	Expenditure incurred	Expenditure incurred in H1 2017	Project purpose	Scheduled completion date
Logistics centre	7,500	862	790	The new logistics centre together with office facilities will provide storage, packaging and distribution services for the Grupa Azoty Group’s products.	2018

2.9. Factors which will affect the Group's performance at least over the next reporting period

Exchange rates

The sound condition of Poland's public finances and falling unemployment, coupled with acceleration of the economies of Poland and the eurozone and stable economic growth globally, translated into appreciation of the złoty against the euro and, to a slightly lesser degree, also the US dollar (in parallel to the simultaneous strengthening of the euro against the dollar) in the first half of 2017.

Potential external risks related to, among other things, political tensions in Poland and the first symptoms of growing difficulties in delivering pre-election promises to stimulate further growth of the US economy may lead to short-lived risk aversion and, as a consequence, cause a temporary depreciation of the złoty against the euro and the US dollar.

It can therefore be expected that in the second half of 2017 the PLN/EUR exchange rate will remain within the medium-term range (PLN 4.20-4.30), with some room for further gradual appreciation if the Polish economy continues to perform well and there is no escalation of the external risks. In turn, the PLN/USD exchange rate will follow the EUR/USD exchange rates, within the broad range of 3.60–3.80, somewhat weakening at times of interest rate rises by the FED.

Movements in the USD/PLN and EUR/PLN exchange rates are not likely to pose a risk to the Group's ability to deliver its foreign currency exposure targets in the second half of 2017 considering that the expected corrective depreciation of the złoty against the euro and the US dollar, after the growth in the first quarter, should limit the scale the currency's appreciation for the year.

Interest rates in Poland

Domestic interest rates remained stable throughout the first half of 2017 and, in line with the Governor of the National Bank of Poland's earlier announcements, should remain unchanged until the end of the year. Thus, the main reference rate applicable to credit facilities contracted by the Grupa Azoty Group (1M WIBOR) should remain flat at about 1.7%. This will help stabilise the Group's borrowing costs at a relatively low level reinforcing its debt service capacity, also if the Group decides to increase debt to finance its investing activities, as planned.

Despite the continued economic growth in the eurozone and a gradual rise in inflation, the European Central Bank continues its quantitative easing programme and a policy of negative interest rates, which should remain at current levels until the end of 2017, considering that core inflation remains low following the long period of deflation.

On the other hand, in 2017 the FED will continue to gradually taper its monetary policy and by the end of 2017 it will have introduced a subsequent 0.25% interest rate rise, announced earlier, in connection with the continued stable economic growth in the US and concerns regarding increased inflationary pressures.

To conclude, any adverse changes to the current low interest rates on debt in currencies used by the Group to finance its business (PLN and EUR) are unlikely before the end of 2017. Thus the risk of the Group's financial condition or results of operations deteriorating on higher borrowing costs is considered low.

A limited rise of the WIBOR and/or EURIBOR rates is unlikely before the first half of 2018 if inflation escalates and the GDP continues to grow at the current rates.

In terms of market rates, a relatively narrow spread between credit and deposit rates available to the Group is expected to continue.

Interest income earned on free cash under cash pooling and fixed-term deposits will partially offset the borrowing costs.

Market environment and outlook

Besides the market environment in Poland and the world, the Group's future results will be primarily shaped by prices of strategic feedstocks (including gas and petroleum products), conditions on target customer markets, and product prices.

Oil prices have a direct effect on the prices of propylene, phenol, benzene, and caprolactam.

- According to the world economic outlook published by the International Monetary Fund, the developing economies of Europe (i.e. Poland, Turkey, Romania, Hungary, Bulgaria, Serbia, Croatia, Albania, Bosnia and Herzegovina, Kosovo, and Macedonia) are expected to grow 3.5% in 2017 and 3.2% in 2018.
- Poland is forecast to see stable economic growth, driven mainly by domestic demand. Rising demand is to be supported by favourable conditions on the labour market, positive consumer sentiment and falling unemployment.

- Many analysts expect the situation on the oil market to improve in in the second half of 2017 on the back of falling global oil stocks. In a longer term, much will depend on the levels of oil output, i.e. on OPEC's decisions and the volumes of shale oil produced in the US. Currently, OPEC declares that it will extend production cuts until March 2018. Since the beginning of 2017, OPEC and other oil-producing countries had cut their output by 1.8m barrels per day, and their target is to reduce oil inventories in OECD countries to the five-year average, to ultimately balance the supply/demand situation.
- In Europe, the demand for gas is expected to reach 514 bcm in the entire 2017 (up 8 bcm year on year). Despite the high supply of Russian and Norwegian gas, LNG imports to Europe are forecast to increase, at the expense of own production. The current LNG imports of 52 bcm in 2016 are to double within two years, leading to continued low prices of gas in the near future.
- Coal prices are forecast to continue at the current level in the second half of 2017, and are unlikely to return to their lows any time soon. The equilibrium price is estimated at between USD 65 and USD 70 per tonne, not to be seen within the next two or three years, however.
- The Polish electricity market is largely affected by climate regulations and the need to continue upgrading generation capacities (expenditure on new production capacities and maintaining operating capacity reserve). Electricity prices will be driven by the ongoing restructuring of the coal mining sector (with equity involvement of energy producers), gas prices, increasingly widespread use of energy efficient solutions, trends in prices of coal on global markets and in Poland, as well as higher volume of CO_2 emission allowances, conducive to a decline in market prices of the allowances. A moderate increase in electricity prices is forecast for the year.
- New units for sulfur recovery from oil and gas, accompanied by demand for compound fertilizers falling on the back of lower output of phosphate fertilizers in China and shrinking demand in India will be conducive to the slight volatility of sulfur prices.
- The ammonia market will see a rapidly growing supply in 2017, because of new production capacities coming on stream. Approximately 12% of ammonia output is traded internationally, but because it cannot be kept on stock in large quantities, its prices are subject to significant fluctuations over very short periods of time. The price of ammonia in Poland will be driven both by production costs and developments on global markets.
- On the agricultural market, produce prices will remain a material factor driving farmers' purchasing power in the coming months.
- According to analysts, a slight improvement in the economic conditions in domestic agriculture should be expected in the coming months, supported by growing demand for food, driven by improvement on the labour market and higher household incomes.
- After this year's harvest and if farm gate prices of agricultural produce are favourable, prices of nitrogen fertilizers may increase. Late August and September mark the beginning of the autumn fertilizer season, with higher demand for nitrogen and compound fertilizers for winter crops. The price of DAP will change in response to developments in global markets, namely demand from India, the US, and South America, as well as the growing supply of the product from Morocco and Saudi Arabia.
- After the start of the fertilizer season in significant markets for potassium chloride (China, India), new annual contracts are expected to be signed. Negotiations are due to start in the third quarter of 2017. In China, they may be hindered by weak demand for potassium chloride and high inventories of the product (approximately 2m tonnes of imported potassium chloride and 1.5m tonnes from domestic production). Prices in the Chinese market usually serve as a point of reference for exporters and importers elsewhere in the world.
- In late June, the largest producers of sulfur from the Persian Gulf announced sulfur price rise of USD 5 per tonne (6%) on average, effective as of July. In the second half of 2017, demand for sulfur may grow, driven by the planned launch of new large phosphoric acid and phosphate fertilizer plants in Morocco and Saudi Arabia.
- In the near future, the prices of products and feedstocks used by the plastics segment will still be largely affected by the following two factors: commodity pressures (which depend on oil prices) and the balance of supply and demand (both in the plastics processing industry and the polyamide market, influenced also by GDP growth rates). The long-term outlook for polyamide 6 producers is still favourable, given the segment's considerable growth potential and ability to extend the product chain towards more technologically advanced products. The overall structure of demand for polyamide 6 is expected to change, mainly because of the growing significance of engineering plastics, foil and flexible packaging. Therefore, within the next decade the automotive industry will be the main customer for polyamide-based engineering plastics, as it seeks new applications

for plastics to reduce vehicle weight, fuel consumption and pollution emissions. This underpins optimistic outlook for the market.

- The prices of OXO products will be linked closely to those of propylene. Market conditions should remain stable and varied due to demand dynamics in individual geographical regions and end markets. Demand may be affected by geopolitical events in different regions of Europe and the world where Grupa Azoty products are sold. Fluctuations in the price of propylene and other raw materials, as well as their shortages, will cause OXO alcohol and plasticizer prices to decline. In the coming months, the market will be highly sensitive to the prices of raw materials, particularly of propylene. After the increase seen in the first half of 2017, the prices are likely to decline in the second half of the year affected by the improving supply situation.
- The prices of titanium white are forecast to grow markedly again in the third quarter of 2017. The product’s availability on the global markets is still limited and the delivery times may reach even 2–3 months. In the European market, prices of titanium white may increase by EUR 180–EUR 350 per tonne.

Legal regulations

Regulatory area
In Brussels, work is still underway to determine the final draft of the new fertilizer regulation, published by the European Commission in March 2016. The Grupa is actively working to ensure that the regulation includes provisions that are most favourable to its business. In this respect, it cooperates with the Ministry of Development, Members of the European Parliament, Permanent Representation of the Republic of Poland to the European Union and various Polish and foreign organisation (e.g. AEEP - Alliance Européene des Engrais Phosphatés, Fertilizers Europe).
Outside the European Parliament, work is also carried out at the Council of the European Union. The Group’s efforts, supported by the Polish government and AEEP, have led to the creation of a coalition of six countries campaigning for introduction of the limit of 80 mg cadmium per 1 kg of phosphorus pentoxide. The next stages of work on the Fertilizer Regulation draft will be plenary voting on the issue in the European Parliament, initially scheduled for October this year, and trilateral talks between the European Commission, the European Parliament and the Council, expected to be held in the first half of 2018. This is when the final version, limits and term of the new regulation will be published.

Trade policy

- On June 30th 2017, the European Commission granted manufacturers’ request to retain anti-dumping duty on imports of melamine from China until July 1st 2022. The regulation imposes an anti-dumping duty of EUR 415 per tonne of melamine and a minimum price of EUR 1,153 per tonne of the product from three Chinese companies for the next five years.
- In India, definitive anti-dumping duties imposed on October 8th 2012 on imports of melamine from the EU, Iran, Indonesia and Japan for five years will remain in effect until October 7th 2017.
- The United States International Trade Commission confirmed the preliminary anti-dumping duties levied on melamine from China (360.03%) and Trinidad and Tobago (174.22%). These duties are in addition to the countervailing duties introduced in April 2017: 27.48% for melamine from Trinidad and Tobago and 147.62–150.52% for melamine from China.
- Work on extension of the Autonomous Trade Measures (ATM) for Ukraine is coming to a close. Relevant proposal, put forward by the European Commission in September 2016, is aimed at improving access for Ukrainian exporters of agricultural produce as well as manufacturers from other industries, including the chemical sector. The outcome of the negotiations needs to be endorsed by the Council and the European Parliament now. Preferential tariff rate quotas at 0% were set for the following products offered also by the Grupa: ammonium sulphate, calcium ammonium nitrate, NPK fertilizers, NP fertilizers, and titanium white. The new regulations are expected to come into force by the end of September this year. The Group actively presented in the consultations of the document.
- Ukraine’s Interdepartmental Commission on International Trade decided to renew anti-dumping measures on some fertilizer imports from Russia. On May 18th, a duty of 31.84% was imposed on all imports of Russian urea and UAN.
- On March 29th 2017, the United Kingdom officially triggerred the process of leaving the European Union by invoking Article 50 of the EU Treaty. There are two years to agree the terms of Brexit, meaning the UK is to leave the European Union on March 29th 2019 at the latest. During the

negotiations, a trade agreement will be discussed to define the rules of future cross-border trade between the EU and the UK.

3. Risks and threats

Risk related to price and availability of natural gas

In its search for competitive sources of gas, the Group seeks to diversify both the geographical regions and the suppliers of gas. Negotiations with alternative gas suppliers are conducted at the Group level, which allows the Group to leverage its stronger bargaining position.
The Group takes steps to satisfy its overall gas demand through a combination of a long-term contract with its strategic supplier (PGNiG S.A.), annual or shorter contracts with a number of other suppliers, and transactions on energy exchanges and the OTC market to meet its short-term demand. Currently, gas purchased by the Group is priced based on gas prices quoted on energy exchanges, which means that the Group purchases gas at prices paid by its competitors in the European Union.
The gas interconnector and gas storage facility extension projects, currently being implemented in Poland, and the operation of the LNG terminal in Świnoujście have minimised the risk of disruptions in gas supply. The Group companies also focus on reducing their gas consumption costs by implementing projects designed to reduce gas consumption.

Risks associated with the planning and execution of strategic projects

The Group companies are working on investment projects commenced in previous years, while embarking on new strategic ones, important for the Grupa Azoty Group’s interests, including investments in property, plant and equipment. Delivery of the Strategy depends on a range of factors, including those outside of the Group’s control. The risks to the implementation of the Strategy are external developments in the Group’s environment, such as macroeconomic factors, market conditions, business environment and activities of the main competitors. This could adversely affect the Group’s ability to develop its business as planned and to deliver its strategic objectives.
The Operationalisation of the Group’s Strategy for 2013−2020 lists the strategic projects pursued by the Group. The risk inherent in the execution of strategic projects, including investment and other projects, lies in the possibility that major growth-oriented initiatives will not be completed according to plan or will not deliver the expected results, and that the goals they are intended to achieve will not be adequately translated into the project planning, monitoring or execution processes. In order to minimise the risks to the execution of strategic projects at the Group, internal procedures have been put in place to define and govern the preparation and execution of investment projects. Oversight has been introduced over strategic projects and their assumptions (business effects, budgets, KPIs, schedules, division of responsibilities) and regular updates are provided on projects’ status.
The execution of investment projects includes change management, where special attention is given to changes in foreign exchange rates, commodity prices, as well as the requirements to be met by newly constructed units. As a result, execution timetables and expenditure budgets can be updated on an ongoing basis. In addition, controlling officers monitor progress of financing of the projects to identify potential threats. These policies also take into account the obligations and requirements imposed on beneficiaries of public funding.
As part of the planning and execution of strategic projects, in the fourth quarter of 2016 the Group begun the process of reviewing its Growth Strategy. The 2013–2020 Strategy was updated on May 10th 2017. The update involved review of strategic objectives, including investment projects. Some of them were pulled and new ones were introduced.

Risk associated with new legal requirements relating to production processes, including environmental regulations

Risk associated with the implementation of the Industrial Emissions Directive (IED)

Following the implementation of the Industrial Emissions Directive (IED) in January 2014, the Group has been taking steps to bring its production facilities to compliance with the new regulations. The Group is required to undertake specific adaptation work, and bear its costs. To ensure that there is sufficient time for taking appropriate steps to adapt the Group’s facilities to the changing regulations, the parent continuously monitors all planned and implemented changes in the legal environment which could affect the Group’s operations. Investments necessary in the light of new regulations are included in the Group’s investment plans and subsequently implemented.

Risk associated with greenhouse gas emissions

Greenhouse gas emissions are covered by legal regulations related to the European Union's emissions trading scheme (EU ETS). The system is based on the allocation of free greenhouse gas emission allowances for emitting installations and, if free allowances are not sufficient, on the purchase thereof in an auction-based system. Each year, the number of the allowances allotted decreases by several percent. If the actual CO2 emissions are not covered by the free allowances, the Group may need to incur additional capital expenditure on projects designed to reduce the emissions of nitrous oxide and carbon dioxide. The volume of carbon dioxide emissions is related to the energy intensity of production processes. In order to mitigate this risk, the companies have been taking steps to reduce the energy intensity of their production processes and the greenhouse gas emissions. Implementation of the adopted Energy Policy has been confirmed with a certificate of the Energy Management System's compliance with ISO 50001. When increasing production volumes or launching new installations covered by the EU ETS, the companies apply to the Ministry of the Environment for allocation of additional greenhouse gas emission allowances from the MSR on an as-needed basis.

Risk related to BAT conclusions

Following the scheduled review of the regulations on the Best Available Techniques (BAT) for the Manufacture of Large Volume Inorganic Chemicals: ammonia, acids & fertilisers, there is a risk of implementing stricter and broader requirements relating to the air pollution emissions standards. Similarly, there is a risk that new BATs will be defined for the installations for which so far no BATs have been specified. The period for adapting production installations to the emission requirements specified in the BAT conclusions is four years.

In order to meet the BAT requirements, the companies monitor any drafts of new laws and regulations on an on-going basis and actively present their opinions on the proposed legislation. The measures taken by the Group companies in this respect include:

- analysing the effectiveness of the technologies used in the context of development trends prevailing in the competitive environment,
- planning and implementing projects designed to bring the production installations in line with the BAT/BREF standards,
- searching for new solutions used in the processes, in particular to improve efficiency and reduce energy intensity in the context of regulations currently in place and the current level of technology,
- developing and extending the product range by adding new fertilizers based on components produced in the existing units.

Risk of deteriorated supply-demand balance

In the Agro Fertilizers segment, the Group identifies risks related to:

- increased imports of nitrogen and compound fertilizers, produced based on cheaper raw materials, to Poland and the EU, and consequently persisting oversupply and aggressive pricing policies pursued by importers struggling to maintain their shares in the fertilizers market;
- launch of significant new manufacturing capacities, particularly in the urea market (USA, Algeria, Russia) where oversupply periodically affects prices of other nitrogen fertilizers;
- increase of production capacities of nitrate fertilizers in Hungary and stronger impact of this product on the market in southern Poland;
- ban on trade in nitrate and CAN in Turkey, introduced for an indefinite period in response to terror attacks in the country − search for EU markets to sell products manufactured in or imported by Turkey;
- mergers and acquisitions among chemical producers, which might enable them to exert stronger pressures on the EU fertilizers market;
- competition growing stronger as new products are marketed and more effective technologies applied;
- marketing structures being established in Poland by foreign-invested distribution companies, which results in sale of imported fertilizers;
- marketing structures being established in Poland by fertilizer manufacturers from the East, e.g. PhosAgro, which may lead to higher sales of imported fertilizers in a longer term.

In order to mitigate the identified risks and to strengthen and consolidate its leadership in the segment, the Group has been taking steps to optimise the production costs and broaden the portfolio of products and services offered.
Measures taken by the Group to strengthen its competitive advantages in the fertilizers segment:

- implementation of the Group’s updated distribution strategy,
- implementation of projects designed to improve the efficiency of production processes,
- strengthening the Group’s market position through acquisitions and placement of new products in the market,
- taking active part in the process of consolidation of the chemical industry,
- initiation of anti-dumping proceedings,
- active participation in the work of Fertilizers Europe,
- cooperation with universities and research institutes,
- supporting agricultural producers by providing them with access to state-of-the-art fertilizing and production solutions.

In the Plastics segment, the Group identifies risks related to:

- global oversupply of caprolactam and polyamide. Excess volumes from the Far East are shipped to Europe, as a result of which traditional export markets of EU manufacturers begin to shrink and prices decline to unsatisfactory levels,
- mergers and acquisitions among chemical producers, which might enable them to exert stronger pressures on the EU market.

To minimise the effect of the expected market trends, the Group has undertaken a number of initiatives to strengthen its competitive position:

- Construction of a new polyamide 6 unit in Tarnów, with an annual production capacity of 80,000 tonnes, which will balance the entire caprolactam production volume within the Grupa Azoty Group. Extension of the caprolactam (polyamide 6) product chain will be an additional benefit;
- The parent is finalizing arrangements for the project to construct a new modified plastics facility in Tarnów, within the Kraków Special Economic Zone, that will help further expand the product chain (PA6 and its compounds);
- Preparation of a long-term caprolactam manufacturing cost reduction programme;
- Leveraging the synergies between Tarnów’s and Puławy’s units following the integration of the companies’ production capacities and sales potential;
- Adaptation to customer expectations by offering new products tailored to specific customer needs;
- Efforts to optimise the portfolio of raw material suppliers, with particular emphasis on direct partnerships with producers under long-term strategic contracts, and to develop an optimum procurement logistics model;

- Continuation of the policy to diversify sales of caprolactam and polyamide;
- Adaptation to customer expectations by offering new products tailored to specific customer needs;
- Monitoring the situation for any possible threats to be able to take necessary steps and mitigate adverse effects of such negative developments.

In the Chemicals segment, the Grupa Azoty Group has identified risks related to:
- Weaker demand for titanium white from paint and varnish manufacturers, higher quality requirements in the plastics and paper industries, significant increase in the production capacities of Chinese manufacturers, and plans to classify titanium white as a carcinogen;
- Higher supply of OXO alcohols on balanced European markets, driven by heavy inflows of cheaper alcohols, especially from the Russian market;
- Import of plasticisers to the balanced and highly competitive EU market, on which a wide range of plasticisers are available – the risk related to imports of non-phthalate plasticizers from the Korean and Turkish markets is particularly significant.

The Group protects its business against those risks:
- By adapting its product mix to the market requirements and needs, for instance by launching a unit producing Oxoviflex™, a non-phthalic plasticizer, and, as production capacities grow, by seeking new customers for this product; by ensuring high purity of OXO alcohols and identifying market niches – e.g. improving the DEHP plasticizer for medical applications or arranging deliveries tailored to the needs of end users (flexitanks for deep-sea freight of small volumes of products);
- Through initiatives designed to minimise production costs of individual products;
- Through active participation in public affairs marketing and trade associations.

Currency risk
The Group has a positive exposure to the euro and the US dollar which is hedged based on on-going monitoring of movements in the euro and US dollar exchange rates. The Group hedges its currency exposures using currency forwards and natural hedging (extending the latter's application to include foreign-currency settlements of gas supplies).
In 2015, having implemented the new centralised financing model, the Group extended its hedge time horizon by using a portion of long-term financing in the form of a euro-denominated facility. In line with its accounting policy, for such currency instruments, maturing in more than one year, the Group uses hedging relationships with future revenue planned to be generated in foreign currencies.
The Group's Risk Committee analyses and sets consolidated targets for currency exposure of the Group and its leading companies, and recommends target levels and horizons of hedges, types of currency instruments, and exchange rates for hedge transactions. Hedging transactions are executed by those Group companies where the exposure actually occurs.
The applied risk management methods enable the Group to limit the existing risk by using selected hedging instruments and strategies, based on long-term and one-year currency exposure plans and their updates to account for quarterly operational plans and short-term projection of currency flows and currency expenditures, and based on the transactions already registered in the financial and accounting system. However, these methods do not eliminate that risk completely.In addition, currency risk may affect the domestic nitrate fertilizer market in the context of bilateral trade with other EU countries. Strong fluctuations in exchange rates may affect the Group's business, financial condition or performance.

Risk related to availability and efficiency of capital and other sources of funding
One of the factors important for the successful development of the Group's business is the implementation of strategic projects and availability of capital for such projects, as discussed in Operationalisation of the Strategy for 2013–2020. There is a risk that insufficient access to capital or other sources of funding, or availability of such capital or other sources of funding at excessive cost, might adversely affect prospects for the Group's development and delivery of its strategy or that the Group might use the available capital in an inefficient manner and thus achieve returns that fall short of investors' expectations.
Under the consolidated financing model implemented in 2015, the Group executed a harmonised package of corporate financing agreements, thus enhancing its long-term security, based on uniform financing covenants agreed with banks, including a net debt to EBITDA ratio, which should not exceed 3.0x. The Group also intends to pursue major investment projects via SPVs and to secure their financing in the form of project finance (without recourse to the Group), which may lead to a

significant increase of debt in the future and require optimising selected covenants of the existing corporate financing agreements.

Risk of a negative effect of CO_2 trading prices on the financial result

The Group has in place a monitoring system for emissions covered by the EU ETS. It also performs ongoing balancing of greenhouse gas emissions. The Group monitors its actual emissions and the market prices of emission allowances, and takes appropriate steps in response to their fluctuations. The Group may be forced to incur higher-than-expected costs if it reports a deficit in emission allowances as at the end of the year and faces an increased demand for EUAs on the market.
The Group mitigates the risk of an adverse effect of EUA prices on the carbon market by averaging the price of emission units purchased on the spot market and by purchasing CO_2 emission allowances in financial derivatives with physical delivery in the future, in accordance with the Purchase Strategy in force from time to time. The Group effectively implements its strategy of rolling purchases of emission allowances, which is designed to ensure full coverage of any deficit of emission allowances that should be allocated for a given year and subsequently redeemed, with exercise prices not higher than projected. The Group has appointed the EU ETS Management Committee, with representatives of all key Group companies. Its main objective is to supervise a joint model for managing CO_2 emission allowances at the Group companies, in particular the CO_2 Emissions Trading Strategy, and subsequently the implementation of the Emissions Trading Strategy binding on all Group companies.

Risk of major industrial accidents or technical failures disrupting the continuity of processes and operation of key production units

The Group has reliable safety systems and preventive measures in place at all organisational and technological levels, including occupational health and safety as well as protection against industrial accidents, however there is no assurance that these will completely eliminate the risk of such accidents and ensure the continuity of production processes. Their relevance is assessed by external and internal inspection authorities, as well as accreditation/certification bodies.
Prevention of industrial accidents at the Group companies is achieved through a range of activities, including:

- identification of hazards inherent in technological processes, storage and transport, and implementation of technical solutions and organisational measures to minimize the risk of an accident,
- ongoing monitoring of operations of machinery and equipment and evaluation of their technical condition,
- fitting of plants and units with safety and protection systems to minimise the risk of major accidents and environmental contamination, as well as risks to life and health,
- implementation of new projects and upgrades based on technical and organisational solutions designed to ensure occupational health and safety (the Group’s facilities are compliant with the Best Available Techniques (BAT) reference documents, which are the source of the world’s strictest safety requirements, including environmental regulations),
- carrying out scheduled technical stopovers and maintenance shutdowns to ensure that the units are kept in a proper working order,
- continuous improvement of the employees’ qualifications through training courses, etc.
- introduction of corporate rules at the Group on how to report industrial accidents and failures, as well as how to investigate them and take preventive measures to mitigate the risk of their recurrence in the future,
- analysis and periodic update of technical and technological risks at Grupa Azoty,
- implementation of an operational excellence programme,
- implementation of the Product Stewardship standard, covering all stages of the fertilizer lifecycle, which has been confirmed by the issuing of a relevant certificate.

Risk related to maintaining continuity of production and availability of ammonia at economically viable prices

To mitigate the risk and to strengthen and consolidate its leading position, the Group takes steps to:

- diversify suppliers of natural gas and ammonia,
- maintain ammonia stocks at optimum levels at the Group, to ensure continuity of supplies and production of ammonia and caprolactam,
- prepare reduced-output scenarios based on break-even points for key products,
- analyse on an ongoing basis maximum ammonia purchase prices to achieve product profitability,

- analyse on an ongoing basis fixed and variable costs of production to determine economic viability of purchasing ammonia outside the Group,
- maintain the operational reliability of units by carrying out overhauls, upgrades and investments, in particular in areas covered in the technical risk analysis.

Risk of implementation/tightening of EU or local regulations which would restrict the use or application of the company's products

The Group monitors and implements new requirements on an ongoing basis. The Group takes an active part in the work of registration consortia and European associations, and cooperates with Polish institutions to receive advance information on upcoming changes in the legislation. In each case the Group reviews the impact of new regulations on its operations and marketed products. Amendments to EU directives and regulations concerning the Group's key manufacturing and trading activities give rise to a potential risk that the use and application of the Group's products by customers in the EU countries may be adversely affected.
The Grupa Azoty Group is currently identifying the risks posed by the Draft of a new Fertilizer Regulation of the European Parliament and the EU Council, intended to replace the existing Regulation (EC) No. 2003/2003 of the European Parliament and the EU Council of September 13th 2003, relating to fertilizers. The new document is designed to implement the principles of the Circular Economy package. The proposal assumes an uninterrupted flow of goods on the single EU market, preceded by the mandatory harmonisation of fertilizing products (CE marking). The European Commission's proposal also covers the use of organic waste and bio-waste as raw materials to manufacture fertilizers, as well as recycling and reuse of valuable manufacturing components. The new rules will apply to all types of fertilizers to ensure the highest level of soil protection. The Regulation introduces strict limits for heavy metal contamination, including cadmium content in phosphate fertilizers. The European Commission assumes that this will reduce health and environmental risks. Moreover, this way the EU intends to reduce the dependence of the fertilizer industry on imports of phosphorus-bearing materials.
The Group is actively participating in the work on the wording of this regulation. The Group appointed a dedicated expert team which actively participates in the legislative work. In cooperation with other members of the Alliance Europeenne des Engrais Phosphates AEEP, the Group maintains regular communication with key Members of the European Parliament and the Polish government's representatives to the EU Council, and holds discussions with representatives of the European Commission which has proposed the new legislation. The Grupa Azoty Group's activities are designed to include, in the new regulation, an 80 mg limit of cadmium per 1 kg of phosphorus pentoxide (P_2O_5). On the one hand, this would enable the European Commission to achieve its pro-environmental objective and, on the other, the industry to adapt its operations to new limits and implement a new technology. At the same time, the Group engages in research and development work in partnership with research institutes to develop technologies for removal of heavy metals from fertilizer product streams.
Work is under way to implement into Polish law the Directive of the European Parliament and of the Council on the reduction of national emissions of certain atmospheric pollutants and amending Directive 2003/35/EC (NEC Directive, COM(2013)92). The draft proposes that ammonia emissions be reduced. The agricultural sector can expect new requirements concerning ammonia emissions from different types of mineral fertilizers, primarily those based on ammonia (especially urea) rather than nitrate fertilizers. Additionally, the Group monitors other aspects of EU regulations, such as free trade agreements (DCFTA Ukraine, TTIP). The parent also takes steps to ensure that the entire manufacturing and distribution process meets the safety requirements applicable to trading in its products.

Risk of failure to meet deadlines for reduction of NO2, SOx and particulate matter emissions

The Group takes steps to ensure its compliance with the requirements of the IED Directive, which entered into force as of January 1st 2016 and defined new emission standards for the combustion of fuels in installations (Regulation of Minister of the Environment of November 4th 2014 on emission standards for certain units, fuel combustion sources, as well as waste incineration and co-incineration equipment). The new standards in particular apply to sulfur dioxide, NOx and particulate matter emission limits.
The IED Directive and the Environmental Protection Law provide for postponing the effective date of the more restrictive emissions standards. One such mechanism is the Transitional National Plan (TNP).

The fuel combustion facilities operated by the Group have also been submitted for inclusion in the TNP.
The following investment projects have been undertaken to meet the above standards:
- Grupa Azoty KĘDZIERZYN Group – new coal-fired generating unit;
- Grupa Azoty S.A. – wet flue gas desulfurization unit;
- Grupa Azoty POLICE Group – flue gas desulfurization unit.

When the projects are completed, the Group will achieve compliance with the emission requirements under the IED Directive and Polish regulations.
On April 28th 2017, the European Commission voted to adopt the BAT Conclusions under the standards proposed in BREF for the LCP sector: Directive 2010/75/EU of the European Parliament and of the Council of 24 November 2010 on industrial emissions (IED).
The Group is analysing the effects of introducing the BAT Conclusions under the IED on the scope of necessary power generation upgrade projects. Pursuant to the new regulations, the required modernisation work must be performed within four years from the effective date of the BAT Conclusions.

4. Other information

4.1. Other material events

Changes in the Executive Board of Polish Chamber of Chemical Industry
On February 3rd 2017, vacancies were filled and changes were made in the Executive Board of the Polish Chamber of Chemical Industry. Wojciech Wardacki, President of the Management Boards of Grupa Azoty S.A. and Grupa Azoty POLICE, was appointed new Chairman of the Board. Jacek Janiszek, President of the Management Board of Grupa Azoty Puławy, became the Deputy Chairman. Paweł Bielski, EngD, Head of the Ignacy Mościcki Industrial Chemistry Research Institute, was also appointed to the Board.

Starachowice Special Economic Zone
On February 17th 2017, the Management Board of the Starachowice Special Economic Zone granted a licence to Grupa Azoty PUŁAWY to conduct business activity in the Starachowice Special Economic Zone in connection with the "Production unit for granulated fertilizers based on ammonium nitrate" project. Grupa Azoty PUŁAWY will benefit from a tax exemption in respect of the costs of this investment project, and the maximum amount of qualifying investment expenditure will be PLN 403m.
According to the terms of Licence No. 169/2017, in connection with the implementation of the "Production unit for granulated fertilizers based on ammonium nitrate" project, Grupa Azoty PUŁAWY:
- will incur in the Special Economic Zone investment expenditure of at least PLN 310m by December 31st 2020,
- will employ at least 15 new employees by January 31st 2019 and maintain the employment level of 107.86 employees until January 31st 2024 (this number of employees includes persons employed in full-time positions throughout the year, as well as part-time and seasonal employees, calculated in full-time equivalents),
- will complete the investment project by December 31st 2020.

On February 17th 2017, Grupa Azoty PUŁAWY signed Annex No. 8 to the Agreement with the Starachowice Special Economic Zone of August 10th 2007, concerning the sharing of costs related to the administration and maintenance of the zone's general infrastructure.
The amendments increase the quarterly participation fee from PLN 26.8 thousand (VAT excl.) to PLN 52 thousand (VAT excl.) as a result of addition of the PLN 25 thousand (VAT excl.) quarterly participation fee for a new plot added to the Starachowice Special Economic Zone, covered by Licence No. 169/2017 of February 17th 2017 for conducting business activity in the special economic zone.

Grupa Azoty wins the Engine of the Polish Economy title
Grupa Azoty was included among the Engines of the Polish Economy, a ranking by the Home & Market magazine, covering ten leading sectors of Poland's economy. Among the ten winners – one winning representative from each sector – Grupa Azoty took the first place in the Chemical Industry category.

The Tarnów-based company was awarded "for its constant efforts to change the face of the Polish chemical industry."

Appointment of a qualified auditor of financial statements
On March 28th 2017, the parent's Supervisory Board appointed a qualified auditor to review and audit the separate financial statements of the parent and consolidated financial statements of the Grupa Azoty Group for the financial years 2017, 2018 and 2019.
The entity appointed to perform the reviews and audits is Ernst & Young Audyt Polska Sp. z o.o. sp.k., with its registered office at Rondo ONZ 1, 00-124 Warsaw, Poland. Ernst & Young Audyt Polska Sp. z o.o. sp. k. is entered in the list of qualified auditors of financial statements under No. 130.

Management systems
Following a series of successful external audits carried out by DNV GL Business Assurance Poland Sp. z o.o., an accredited certification provider, Grupa Azoty S.A. obtained Management Systems Certificates confirming its compliance with the requirements of the amended standards ISO 9001:2015 and ISO 14001:2015.
The Management Systems Certificates obtained are:
- Management System Certificate confirming that Grupa Azoty S.A.'s Quality Management System complies with the requirements of ISO 9001:2015;
- Management System Certificate confirming that Grupa Azoty S.A.'s Environmental Management System complies with the requirements of ISO 14001:2015.

The certificates cover the production and sale of nitrogen fertilizers, plastics, plastic products, catalysts, organic and inorganic chemicals, heat and electricity. They also cover R&D and laboratory services, design and development of chemical products and plastics, as well as oversight of joint operations of the Grupa Azoty Group companies.
After a series of audits carried out in 2017 by certification body DNV-GL, the Grupa Azoty Group companies, which are members of Fertilizers Europe, were awarded certificates in Product Stewardship for best practices in the management of the fertilizer life cycle.
Product Management Audits are performed every three years by a certification body. The certificate recognizes the European efforts of fertilizer manufacturers in best management practices. This includes product development, raw material acquisition, production, packaging, transport, storage, marketing and sales, product use, services for farmers.
The certificates testify to the high standards of the European fertilizer industry and its positive efforts towards achieving sustainable practices.

Grupa Azoty S.A. wins the title of Transparent Company 2016
On April 6th 2017, Grupa Azoty S.A. was awarded the title of Transparent Company 2016 in the first issue of a ranking prepared by the *Parkiet* daily and the Institute of Accountancy and Taxes, with the support of the Warsaw Stock Exchange. The Company was ranked among the twenty most transparent companies included in the WIG20, WIG40 and WIG80 indices, which agreed to an assessment of their transparency.

Letter of intent concerning coal gasification project
On April 20th 2017, the parent and TAURON Polska Energia S.A. of Katowice, jointly referred to as the "Parties", signed a letter of intent in which they outlined general terms of their cooperation aimed to execute a coal gasification project.
The letter of intent was signed taking into consideration that the Project may combine the satisfaction of energy needs and demand for a raw material used in the chemical industry, as it would consist in the establishment, through product streams, of interconnection between energy generation and chemical production with a coal gasification system.
Products of the Project's process would include electricity and synthesis gas, with a composition enabling its direct use as feedstock for the production of hydrogen, ammonia, methanol or other chemicals. The Parties determined that natural gas currently used to produce nitrogen-based fertilizers can be partly replaced with syngas obtained through coal gasification.
The Project is currently at the stage of Pre-FEED (Preliminary Front End Engineering Design) and accompanying analyses, including market analyses. Estimates are putting the Project's cost at between EUR 400m and EUR 600m, depending on the technology chosen.
TAURON declared that it would participate in the Project on terms defined under separate agreements between the Parties. TAURON's contribution would include selection and construction of a unit guaranteeing maximised utilisation of coal from the TAURON Group's coal mines. The Parties agreed

that additional coal may be supplied by third parties if TAURON is not able to supply coal in the quantities or with the parameters required for the process.
The letter of intent outlines the framework terms of cooperation and has not given rise to any financial obligations or required the Parties to make any management decisions. The Parties declared their intention to cooperate and sign further agreements, including an agreement establishing a joint SPV for the Project. The letter of intent will remain in force until December 31st 2017, but each Party has the right to terminate it on a month's notice.

Update of the Grupa Azoty Group's Strategy for 2013−2020
On May 10th 2017, the Management Board of the parent passed a resolution to update the Grupa Azoty Group Strategy for 2013–2020. On the same day, the Supervisory Board of the parent passed a resolution to approve and adopt the updated Strategy.
The updated Strategy outlines the Group's key strategic objectives in the main product areas with respect to innovations, operations, sales and financial policy. It also defines the corporate management objectives and methodology applied across the Group.

Mission: Create value for the Company and the national economy by delivering safe, useful and innovation-driven chemical products
Vision: Deploy state-of-the-art and comprehensive chemical industry solutions that meet stakeholder expectations

Strategic growth directions
Economic fluctuations and shifts in our immediate environment have necessitated a revision of previous strategic objectives to better align them to current market landscape
In the years to 2020 Grupa Azoty will pursue growth in four areas representing major challenges for Poland's top chemical producer:
- Complete the Group consolidation process
- Reinforce leadership in agricultural solutions in Europe
- Strengthen the second operating pillar by expanding non-fertilizer business
- Develop and implement innovations to drive growth of the chemical industry

Complete the Group consolidation process.
Launched in 2013, the Grupa Azoty Group consolidation process continues to offer the potential for further gains. In order to ensure more effective management of the Group, a system of management by business segments will be implemented. Grupa Azoty will continue to integrate its processes and consolidate its sales/marketing, procurement, logistics, finance, IT and other functions until 2020.

Reinforce leadership in agricultural solutions in Europe
To preserve leadership on the fertilizer markets at home and in its region, Grupa Azoty will seek to increase control of retail distribution channels and look for growth opportunities and improve efficiency of its production processes. Given changing expectations of its key customers, Grupa Azoty will modify its product range to better meet the needs of modern farming, also by offering auxiliary services to farmers.

Strengthen the second operating pillar by expanding non-fertilizer business
In order to diversify its revenue sources and become less dependent on business cycles in agriculture, Grupa Azoty will step up its efforts to expand non-fertilizer business lines, with petrochemicals and plastics as the key areas for growth.

Develop and implement innovations to drive growth of the chemical industry
With its own unique expertise in agricultural products, Grupa Azoty will become an active participant in research, development and innovation projects in Poland, particularly those focused on developing and marketing advanced, profitable, low-tonnage specialty products.

Product strategy

Agro Fertilizers
Grupa Azoty's growth strategy for Agro Fertilizes will focus on extending the value chain with specialty products for specific crops and customers, and on enhancing efficiency of its production processes. Our efforts will largely focus on tailoring our product portfolio to the needs of large-scale farms with

a strong position maintained among small farmers. Grupa Azoty will also expand its range of precision farming services.
In order to secure a market outlet for its fertilizer products, Grupa Azoty will take steps to increase control of domestic and foreign sales channels for agricultural products. Fertilizer sales processes will be further consolidated in order to simplify and streamline relationships with key customers. We will seek to increasingly use a direct connection to the end consumer and grow sales of products complementary to fertilizers.
By consolidating its production assets, Grupa Azoty will act on market opportunities as they arise to reinforce its position on the European fertilizer market.

Plastics
In Plastics, our strategy will focus on extending the value chain with specialty products, expanding into new business fields, and improving operational efficiency.
Once brought on stream, a new polyamide unit in Tarnów will allow us to fully balance caprolactam supply with demand for polyamide production and to focus on polyamides and their derivatives that are further down the value chain and offer stronger market potential. The new plant will produce polyamides in a full viscosity range, suitable for a broader spectrum of applications.
In line with its strategy, Grupa Azoty will avoid direct competition with its customers down the polyamide product chain. In addition, the Company will seek out opportunities to expand into advanced polyamide-based polymers, polymer additives, and engineering plastics.

OXO products
The Company's strategy for the OXO business will focus on securing its access to raw materials, extending the value chain with specialty products, and improving operational efficiency.
In order to meet its own propylene demand and create opportunities for growth in a new value chain, the Company will invest in a project to build a propylene production unit (PDH) in Police, which will offer an option to expand into derivative products.
To better align its offering to market expectations and regulatory requirements, non-phthalate, organic and specialty plasticizers will be added to the product portfolio. In addition, the Company sees growth opportunities in extending its product chain and processing of aldehydes into specialty products.

Titanium white and melamine
Our strategy for Titanium White and Melamine is to improve efficiency of the existing units by implementing upgrades and removing bottlenecks, and to extend the value chain with polymer additives.

Innovation strategy
Grupa Azoty keeps track of and follows current trends, including in the area of research, development and innovation (R&D&I). We do not want to be a mere beneficiary but an active participant of the initiatives being implemented Poland. Our ultimate goal is to lead the way and break new ground in innovation.
In order to maximise potential benefits, Grupa Azoty's R&D&I will be operationalised to establish proper structures, procedures, principles and good practices, which will be coordinated at the Group level. This initiative will be supported through further development of the existing Research and Development Centres and establishment of new units and product specialties.
Our Strategy will focus on driving innovation that helps to extend the value chain with high-margin, low-tonnage specialty products, adapting new technologies to our own needs, and refining existing processes.
Grupa Azoty will actively participate in open innovation initiatives, also by working with promising startups (commercial contracts and/or equity participation), implementing CSR projects, and engaging with local communities. In line with the Strategy, R&D&I spending will reach 1% of revenue by 2020.

Operational excellence strategy
Operational excellence, which complements the organic growth strategy, is about implementing mechanisms for continuous business efficiency improvement, which is achieved by streamlining business processes, cutting costs, and minimising the impacts or reducing the risk of a crisis.
With the Azoty Pro initiatives at an advanced stage and with some optimisation measures having become outdated, Grupa Azoty is set to review its operational excellence programme in detail.

Financial strategy
The updated strategic objectives necessitated a review of the Group's corporate performance indicators.
The indicators provide a benchmark against which progress in the implementation and delivery of our Strategy will be measured.

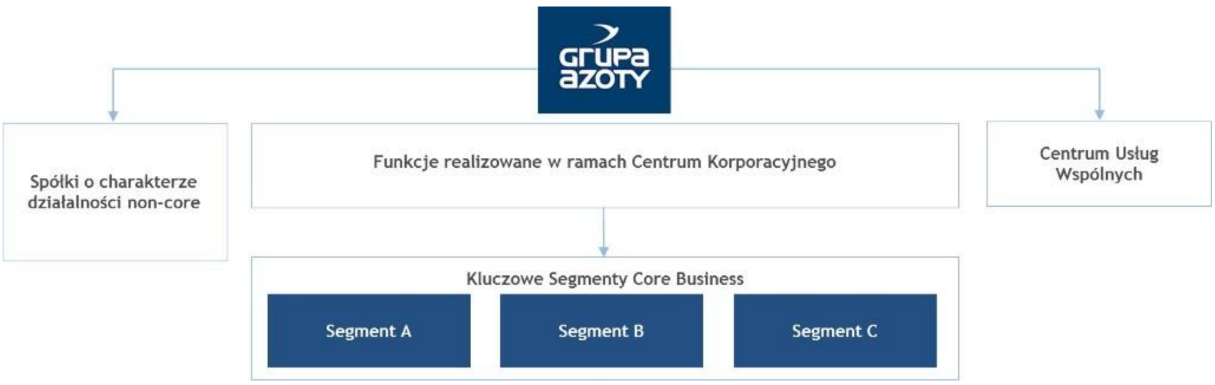
Functional integration
One of Grupa Azoty's strategic objectives is to integrate its finance function Procedures and structures of finance departments will be harmonised across the Group.

Process support
By integrating IT systems and implementing a tool to operationalise the Strategy and monitor its progress

Security
The overriding goal is to ensure long-term financial security and internal coherence among all funding sources.

Risks
Given an extensive capital investment programme in place and the risk of an economic downturn, no lower end has been set for the dividend payout ratio range.
Accordingly, if this is justified, the Management Board will not recommend a dividend payment.

Corporate management strategy
A new organisational model for the Group will be developed by 2020, which will help to maximise synergies through integration of selected support functions and implementation of a management system based on key business segments.



Grupa Azoty plans to implement a divisional management structure designed around its key business segments, supported by the Corporate Centre and the Shared Services Centre, to be gradually streamlined through divestments of non-core companies.

Consolidation and sale of non-core companies
Based on analyses carried out to date, Grupa Azoty has identified companies in respect of which:
- a business analysis needs to be carried out in terms of its consolidation within the Group,
- a decision to keep or sell needs to be made (23 companies),

- the liquidation process needs to be completed (four companies).

Sales consolidation
Successful optimisation of the Group's organisational structure will enable Grupa Azoty to continue the process of consoliding sales functions across the Group. One of the most important strategic goals that Grupa Azoty has set itself is to achieve full consolidation of the fertilizer sales functions across the Group.

Procurement consolidation
Centralisation of procurement of strategic raw materials has brought tangible benefits. Over the period of the Strategy, Grupa Azoty will continue to streamline and harmonise its procurement structures, and refine its procurement procedures and standards and joint purchasing mechanisms. The range of product categories procured through joint tender procedures will be extended, with execution of the procedures supported by an IT platform and other tools.

Corporate social responsibility
Grupa Azoty's growth initiatives will be well balanced, taking account of the need to:
- Improve operational safety of its chemical units and reduce its environmental footprint,
- Maintain dialogue with key stakeholders and support development of local communities,
- Create favourable working conditions by raising employee satisfaction, health and safety standards, and staff qualifications.

Recommendation on broadening the scope of the PDH project to include a polypropylene plant
On June 26th 2017, the Management Board of PDH Polska S.A., Grupa Azoty POLICE's subsidiary, passed a resolution recommending that construction of a polypropylene plant be a preferred option for implementation of the project to construct a petrochemical complex comprising a PDH unit, a polypropylene unit, a port with a storage tank depot, auxiliary facilities and inter-unit connections, with an annual nominal production capacity of approximately 400,000 tonnes of polypropylene. On the same day, the recommendation was approved by the company's Supervisory Board.The final decision on how the project is to be implemented will be made upon completion of the feasibility study, in which the estimated value of the project will be determined.

Grupa Azoty S.A. named Leader of Polish Export
Grupa Azoty S.A. received an Acknowledgement Letter and Cup of the Leader of Polish Export, awarded by the Association of Polish Exporters. Grupa Azoty S.A.'s main export product is Tarnamid®, which is the trade name of polyamide 6, produced in a number of modified varieties. This engineering plastic has exceptional strength and fatigue endurance properties, and features high thermal and chemical resistance characteristics. Therefore, it has plenty of applications across the automotive, textile, electrical engineering, electronic and other industries, as well as in medicine.
The Leader of Polish Export distinction was awarded during the 15th edition of the Programme Conference of the Association of Polish Exporters, entitled "International Business Expansion as part of the Sustainable Development Strategy". Apart from Grupa Azoty S.A., nearly thirty other companies received distinctions – all of them major exporters or contributors to export growth.

4.2. Significant agreements

The agreements are presented in chronological order.
In the first half of 2017 and as at the date of this report, none of the Group companies defaulted on credit facilities or other borrowings or breached any material covenants under credit facility or other loan agreements.

Significant agreements

Execution of individual contracts with Polskie Górnictwo Naftowe i Gazownictwo S.A.
On June 21st 2017, the parent and its subsidiaries: Grupa Azoty PUŁAWY, Grupa Azoty POLICE, Grupa Azoty KĘDZIERZYN, Grupa Azoty SIARKOPOL (jointly "Customers" and separately as "Customer") concluded bilateral contracts ("Individual Contracts") to the framework gas supply agreement of April

13th 2016 with Polskie Górnictwo Naftowe i Gazownictwo S.A.
Under the Individual Contracts, PGNIG is to supply gas fuel from October 1st 2018 to September 30th 2020, with an option to extend the contract term until September 30th 2022. The execution of the Individual Contracts involved shortening of the term of the existing Individual Contracts, executed on April 13th 2016 between the Grupa Azoty Group Customers and PGNiG, to September 30th 2018.
It is the Parties' intention that the Individual Contracts be treated as inseparable elements of the transaction, subject to joint settlement of contracted gas volumes during the Contracts' term. PGNiG will continue as a strategic supplier of gas to the Grupa Azoty Group, and the Individual Contracts will cover approximately 80% of the Customers' total demand for the fuel.
The total value of the Individual Contracts concluded by the Customers over their four-year term is estimated at approximately PLN 7bn. The applied pricing formula is based on market gas price indices.

Material agreements

Agreements and annexes to agreements of financial nature

Partial cancellation of the loan granted by the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW) to Zakłady Azotowe Chorzów S.A.
On January 2nd 2017, Zakłady Azotowe Chorzów S.A. submitted an application for partial cancellation of its loan from the Provincial Fund for Environmental Protection and Water Management (WFOŚiGW). By a resolution of February 22nd 2017, the Supervisory Board of WFOŚiGW agreed to partial cancellation (PLN 168 thousand) of the loan. A relevant agreement was signed on March 8th 2017. The cancellation was granted on a de minimis basis; the amount of the related public assistance was approximately EUR 39 thousand.
The WFOŚiGW Management Board also agreed to partial release of the security provided for the loan, in the amount of PLN 401 thousand. The part of a deposit provided as security for the WFOŚiGW loan amounts to PLN 219 thousand.
In 2017, Zakłady Azotowe Chorzów S.A. did not default on its payment obligations under any credit facility or loan agreement or on any other material terms of any credit facility or loan agreement.

Loan agreement between Grupa Azoty POLICE and Bank Gospodarstwa Krajowego
On January 25th 2017, Grupa Azoty POLICE signed a PLN 80,000 thousand overdraft facility agreement with Bank Gospodarstwa Krajowego, for a period until January 24th 2020.

Annex to the credit facility agreement between Agrochem Sp. z o.o. and Bank Pekao S.A.
On January 31st 2017, Agrochem Sp. z o.o. and Bank Pekao S.A. signed an annex to the PLN 10m overdraft facility agreement (executed on January 29th 2016), extending the agreement term until January 31st 2018.

Credit facility agreement between Remzap Sp. z o.o. and Bank Millennium S.A.
On March 23rd 2017, Remzap Sp. z o.o. signed a PLN 2m credit facility agreement with Bank Millennium S.A. for the period until March 22nd 2019.

Repayment by Grupa Azoty Prorem Sp. z o.o. of investment credit facility extended by PKO Bank Polski S.A.
In March 2017, Grupa Azoty Prorem Sp. z o.o. early repaid the PLN 1,224 thousand of outstanding borrowings under its investment credit facility agreement signed on March 1st 2012 with PKO BP.

Annexes to the agreement for electronic purchase of receivables between the parent and mBank S.A.
On April 26th 2017, the parent and mBank S.A. signed an annex to the agreement for electronic purchase of receivables of September 24th 2014, extending the effective term of the limit of EUR 8m until October 2nd 2017.
Subsequently, on June 29th 2017, another annex was signed, extending the term of the limit until January 29th 2018.

Annexes to receivables discounting agreement between the parent and mBank S.A.
On April 26th 2017, the parent and mBank S.A. signed an annex to the receivables discounting agreement of July 30th 2010, extending the effective term of the limit of EUR 21m until October 2nd 2017.

Subsequently, on June 29th 2017, another annex was signed, extending the term of the limit until January 29th 2018.

Annex to the bank guarantee agreement between Grupa Azoty Prorem Sp. z o.o. and PKO BP S.A.
In May 2017, Grupa Azoty Prorem and PKO BP signed Annex 2 to the framework bank guarantee agreement, whereby the term of the agreement was extended by another three years, until May 10th 2020, with the limit amounting to PLN 2,000 thousand.

Annex to the credit facility agreement between Agrochem Puławy Sp. z o.o. and Bank Pekao S.A.
On June 27th 2017, Agrochem Puławy Sp. z o.o. and Bank Pekao S.A signed an annex to the PLN 15m capital facility agreement with the repayment period until October 31st 2017.

Insurance agreements

Consolidated Group Insurance Programme with Towarzystwo Ubezpieczeń Wzajemnych Polski Zakład Ubezpieczeń Wzajemnych (TUW PZUW)
On February 28th 2017, six member companies of the Grupa Azoty Group which in Q4 2016 joined the mutual insurance company Towarzystwo Ubezpieczeń Wzajemnych PZUW as a Mutual Insurance Union (Związek Wzajemności Członkowskiej), including the parent, Grupa Azoty KĘDZIERZYN, Grupy Azoty POLICE, Grupa Azoty PUŁAWY, Grupa Azoty SIARKOPOL oraz GZNF FOSFORY Sp. z o.o., entered into a new Master Property Insurance Agreement with TUW PZUW for a period of two years, from March 1st 2017 to February 28th 2019, with policies covering the following insurance lines:
- all-risk property insurance (ALLR),
- all-risk electronic equipment insurance (EEI),
- loss of profit insurance ALLR (BI),
- all-risk machinery insurance (MB).

On March 22nd 2017, TUW PZUW signed a letter of intent to extpand its cooperation with the Grupa Azoty Group by entering into insurance agreements covering third-party liability insurance, property in transport insurance (CARGO), contractors/erection all risks insurance (CAR/EAR) and freight forwarder liability insurance. Subsequently, by March 30th 2017, the Grupa Azoty Group member companies forming the Mutual Insurance Union within TUW PZUW served termination notices on their previous insurers, effective from 30th June 2017, under the following insurance agreements which had been entered into for the period from July 1st 2015 to June 30th 2018:
- A master business liability and property insurance agreement with the WARTA/PZU/HESTIA insurance pool;
- A master agreement on property insurance in domestic and international transport with the HESTIA/PZU/WARTA insurance pool.

An analogous termination notice was also given by Grupa Azoty S.A., as the Group companies' policyholder, with effect as of June 30th 2017, under the CAR/EAR (contractors/erection all risks) master agreement which had been entered into with the WARTA/PZU/HESTIA insurance pool for the period from February 5th 2016 until June 30th 2018.
Subsequently, on June 30th 2017, the companies forming the Mutual Insurance Union concluded with TUW PZUW, as part of the second stage of the new insurance programme, the following agreements, effective for two years, from July 1st 2017 to June 30th 2018:
- Business and property third-party liability insurance (OC) Master Agreement,
- Property in national and international transit insurance (CARGO) Master Agreement,
- Contractors/erection all risks insurance (CAR/EAR) Master Agreement.

Trade credit insurance at Grupa Azoty PUŁAWY
In February 2017, the validity periods of the Grupa Azoty PUŁAWY's trade credit insurance policies with Euler Hermes S.A. were extended for the period from February 1st 2017 until January 31st 2018; the policies cover:
- amounts receivable of Grupa Azoty PUŁAWY in connection with its domestic and export sales of caprolactam and melamine, as well as sales of other products to customers buying caprolactam, melamine, PUC-C and alcohol foreshots,

- amounts receivable of Grupa Azoty PUŁAWY in connection with its exports of fertilizers, sales of NOXy®, LIKAM®, PULNOx® to CHPs, power and cement plants, waste incineration facilities, and wastewater treatment plants, as well as sales of technical grade urea on the Polish market.

Subsequent to the reporting period, on July 31st 2017, the trade credit insurance policies of Grupa Azoty S.A. (with coinsurance cover for Grupa Azoty SIARKOPOL, Zakłady Azotowe Chorzów S.A., and the newly included: GNZF Fosfory S.A., Agrochem Puławy Sp. z o.o. and Agrochem Sp. z o.o.) and Grupa Azoty KĘDZIERZYN, contracted with Towarzystwo Ubezpieczeń Euler Hermes S.A. were renewed for a period from August 1st 2017 to July 31st 2019.

Commercial contracts

Ilmenite purchase contract
On January 17th 2017, Grupa Azoty POLICE and Titania AS of Hauge and Dalane, Norway, signed a contract for the purchase of ilmenite.
The estimated value of the contract is PLN 140,000 thousand. The contract was concluded for a definite term from September 1st 2016 to December 31st 2019. Under the contract, ilmenite is to be delivered according to an agreed delivery schedule and commercial terms.

Contract for the purchase of phosphate rock
On May 8th 2017, Grupa Azoty POLICE entered into an agreement for the purchase of Moroccan phosphate rock with Office Chérifien des Phosphates ("OCP") of Casablanca, Morocco (the seller).
The contract was executed for a definite period from April 1st 2017 to December 31st 2017, and defines a specific schedule and other commercial terms of deliveries. The value of the deliveries to be made under the contract is estimated at PLN 135,000,000.
The other terms and conditions of the contract do not differ from standard terms typically applied in such contracts.
The execution of the contract is deemed inside information as the contract concerns supplies of phosphate rock, the primary raw material for the manufacture of compound fertilizers, in quantities sufficient to satisfy Grupa Azoty POLICE's annual requirement for that material. OCP, being the world's largest exporter of phosphorites, guarantees timely delivery of phosphate rock of high and consistent quality.

Contracts between Grupa Azoty Group companies

NOXy® delivery contract
Zakłady Azotowe Chorzów S.A. signed a NOXy® delivery contract with Grupa Azoty KĘDZIERZYN. The contract provides for the delivery of the product from January 2017 to December 2017. The value of the contract is estimated at PLN 1,700,000.

Loan agreement between Grupa Azoty Puławy and SCF Natural Sp. z o.o
On January 16th 2017, Grupa Azoty Puławy signed a PLN 1.0m loan agreement with SCF Natural Sp. z o.o, with the final loan repayment date on October 31st 2022.
On June 19th 2017, Annex 2 was executed to the registered pledge agreement with SCF Natural Sp. z o.o. Pursuant to the Annex, the existing registered pledge will also secure liabilities under the Loan Agreement of January 16th 2017, and the maximum security amount will increase from PLN 715,000 to PLN 1,915,000.
On June 28th 2017, Annex 1 was executed to the agreement of June 17th 2014 with SCF Natural Sp. z o.o. on assignment of rights under insurance policy. Pursuant to the Annex, the assigned rights will also apply to liabilities under the Loan Agreement of January 16th 2017.

Loan repayment
On January 16th 2017, ZAKSA S.A. repaid a PLN 0.5m loan advanced by Grupa Azoty KĘDZIERZYN on November 14th 2016 to finance its day-to-day operations. The loan was repaid by set-off of mutual claims under the loan agreement of November 14th 2016 and the agreement for the provision of advertising services of October 9th 2015, on the due date of the invoice issued by ZAKSA S.A. for the provision of advertising services in the period from January 1st to June 30th 2017 under the agreement for the provision of advertising services of October 9th 2015.

Intragroup financing agreement

On March 31st 2017, pursuant to the intragroup financing agreement of April 23rd 2015, the parent disbursed the following amounts to Grupa Azoty KĘDZIERZYN:

- PLN 1,536,000 − another tranche of the loan for the financing of the investment project "New CHP plant at GA ZAK S.A. – phase 1," following a loan request granted on September 11th 2015, as amended,
- PLN 19,856,000 for the investment project "Upgrade of the urea unit," following a loan request granted on March 29th 2017,
- PLN 7,322,000 for the investment project "Upgrade of the Biological Wastewater Treatment Plant at the Wastewater Treatment and Sewage System Division of the Infrastructure Unit," following a loan request granted on March 29th 2017.

On June 30th 2017, pursuant to the intragroup financing agreement of April 23rd 2015, the parent disbursed the following amounts to Grupa Azoty KĘDZIERZYN:

- PLN 41,472,000 – another tranche of the loan for the financing of the investment project "New CHP plant at GA ZAK S.A. – phase 1", and
- PLN 7,732,000 for the investment project "Raw Gas Compressor (GHH)".

Loan repayment
On May 31st 2017, Bałtycka Baza Masowa Sp. z o.o. repaid the last instalment of the PLN 4m consolidation loan granted on December 23rd 2015 by Grupa Azoty PUŁAWY.

Loan agreement between Grupa Azoty Puławy and Zakłady Azotowe Chorzów S.A.
Since June 2016, Zakłady Azotowe Chorzów S.A. has been in default with payment of instalments due under the loans granted by Grupa Azoty Puławy (creditor). Zakłady Azotowe Chorzów S.A. is currently waiting for the creditor to take a position and decision on a request filed by the Management Board to postpone repayment of instalments due under the loans granted on April 2nd 2014 and March 13th 2015. The decision has been deferred until the Management Board of Zakłady Azotowe Chorzów S.A. coampletes and implements a rehabilitation plan.
As of June 2017, Zakłady Azotowe Chorzów S.A. failed to pay 13 PLN 560 thousand monthly instalments under the loan agreement of April 2nd 2014, and 13 PLN 72 thousand monthly instalments under the loan agreement of March 13th 2015. As at June 30th 2016, Zakłady Azotowe Chorzów S.A.'s debt under the loans was PLN 42,452 thousand (principal), including PLN 8,216 thousand of past due principal instalments.

4.3. Sureties for borrowings, guarantees granted

In the first half of 2017, the Group did not issue any guarantees whose total amount would exceed 10% of the parent's equity.
In the first half of 2017, the Group did not make any amendments to guarantees whose total amount would exceed 10% of the parent's equity.

Sureties granted
Surety provided by the parent to Investitionsbank des Landes Brandenburg (ILB)
The parent's Supervisory Board approved the issue of surety of up to EUR 1,800,000 (PLN 7,596,000) for the benefit of Grupa Azoty ATT Polymers GmbHas security for a grant from Investitionsbank des Landes Brandenburg (ILB) to finance 20% of capital expenditure on construction of a logistics centre in Guben.
On February 14th 2017, the parent and Grupa Azoty ATT Polymers GmbH (the parent's subsidiary) signed a surety agreement under which the parent granted to the subsidiary a surety of up to EUR 1,800 thousand.
The surety was granted to secure a EUR 1.5m grant advanced to Grupa Azoty ATT Polymers GmbH by ILB to finance 20% of capital expenditure on construction of a logistics centre in Guben, Germany (the total amount of investment project is EUR 7.47m).

4.4. Shareholding structure

Below are listed shareholders holding directly, or indirectly through subsidiaries, at least 5% of total voting rights at the General Meeting as at the date of this report, along with information on the number of shares held by such entities, their respective ownership interests, the number of voting rights held, and their share in total voting rights at the General Meeting.

(all amounts in PLN '000 unless indicated otherwise)

Shareholding structure as at May 11th 2017 (issue date of the most recent report)

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of voting rights
State Treasury of Poland	32,734,509	33.00	32,734,509	33.00
ING OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. (indirectly: 19,321,700 shares, i.e. 19.47%)	71,348	0.07	71,348	0.07
Rainbee Holdings Limited*)	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited*)	9,430,000	9.50	9,430,000	9.50
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
European Bank for Reconstruction and Development	5,700,000	5.75	5,700,000	5.75
Other	23,025,763	23.22	23,025,763	23.22
Total	**99,195,484**	**100.00**	**99,195,484**	**100.00**

*) Direct subsidiary of Norica Holding S.à r.l.

On June 9th 2017, the parent's Management Board received a notification from Norica Holding S.à r.l., of Luxembourg ("Norica"), given under Art. 69.1.2 and Art. 87.5.1 of the Act on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies, dated July 29th 2005 (the „Public Offering Act").
According to the notification, on June 6th 2017 Subero delivered 100% shares in Terasta Enterprises Ltd. of Nicosia, Cyprus, to Subero's shareholder as part of the liquidation of Subero.
As a result, on June 6th 2017 Subero (controlled by Viatcheslav Kantor, an Israeli national), having disposed of 100% shares in Terasta and thus having indirectly disposed of Redbrick Holding S.à r.l. of Luxembourg, Redbrick Investments S.à r.l. of Luxembourg, Joint Stock Company Acron of Veliky Novgorod, Russia, TrustService Limited Liability Company of Veliky Novgorod, Russia, Norica, Opansa Enterprises Limited of Nicosia and Rainbee Holdings Limited of Nicosia, indirectly disposed of 19,657,350 shares in the parent, representing approximately 19.8168% of the parent's total shares and 19,657,350 votes (i.e. 19.8168% of the total voting rights) at the parent's General Meeting.
Therefore, Subero indirectly reduced the number of voting rights it held at the parent's General Meeting to nil, i.e. below the threshold of 15% of the total voting rights at the General Meeting.
Following the transaction, Subero does not directly or indirectly hold any shares in the parent, and accordingly the number of shares held by Subero in the parent represent 0% of the parent' share capital and 0 votes (i.e. 0% of the total voting rights) at the parent's General Meeting.
As the shares were disposed of in an intragroup transaction, Viatcheslav Kantor has remained the parent of Terasta, Redbrick Holding, Redbrick Investments, Acron, TrustService, Norica, Opansa and Rainbee and thus continues to indirectly hold 19,657,350 shares in the parent, representing approximately 19.8168% of the parent's total shares and 19,657,350 votes (i.e. 19.8168% of the total voting rights) at the parent's General Meeting.
The transaction did not lead to any changes in the shareholding structure of the parent.

(all amounts in PLN '000 unless indicated otherwise)

Shareholding structure as at June 9th 2017

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of voting rights
State Treasury of Poland	32,734,509	33.00	32,734,509	33.00
ING OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. (indirectly: 19,321,700 shares, i.e. 19.47%)	71,348	0.07	71,348	0.07
Rainbee Holdings Limited*)	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited*)	9,430,000	9.50	9,430,000	9.50
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
European Bank for Reconstruction and Development	5,700,000	5.75	5,700,000	5.75
Other	23,025,763	23.22	23,025,763	23.22
Total	**99,195,484**	**100.00**	**99,195,484**	**100.00**

*) Direct subsidiary of Norica Holding S.à r.l.

On June 30th 2017, the Management Board of the parent received a notification from the European Bank for Reconstruction and Development of London, United Kingdom, (EBRD) pursuant to Art. 69.1 of the Public Offering Act. According to the notification, on June 28th 2017 the EBRD block traded 2,850,000 shares it held in the parent through accelerated book building, reducing its holding of the parent’s share capital from 5,700,000 to 2,850,000 shares, i.e. from 5.75% to 2.87%, and its share in the total voting rights at the parent’s General Meeting from 5.75% to 2.87%.
Having settled the transaction, the EBRD holds 2,850,000 shares in the parent, representing 2.87% of the parent’s share capital, and is entitled to 2.87% of the total voting rights at the parent’s General Meeting.

Shareholding structure as at June 30th 2017

Shareholder	Number of shares	Ownership interest (%)	Number of votes	% of voting rights
State Treasury of Poland	32,734,509	33.00	32,734,509	33.00
ING OFE	9,883,323	9.96	9,883,323	9.96
Norica Holding S.à r.l. (indirectly: 19,321,700 shares, i.e. 19.47%)	71,348	0.07	71,348	0.07
Rainbee Holdings Limited*)	9,820,352	9.90	9,820,352	9.90
Opansa Enterprises Limited*)	9,430,000	9.50	9,430,000	9.50
TFI PZU S.A.	8,530,189	8.60	8,530,189	8.60
European Bank for Reconstruction and Development	2,850,000	2.87	2,850,000	2.87
Other	25,875,763	26.10	25,875,763	26.10
Total	**99,195,484**	**100.00**	**99,195,484**	**100.00**

*) Direct subsidiary of Norica Holding S.à r.l.

In the period from June 30th 2016 to the issue date of this report, the parent was not notified of any changes in major holdings of its shares.

4.5. Parent shares held by its management and supervisory personnel

As at the reporting date (June 30th 2017) and as at the date of this report, none of the members of the parent's Management and Supervisory Boards held any shares in the parent.

4.6. Composition of the Management Board and the Supervisory Board

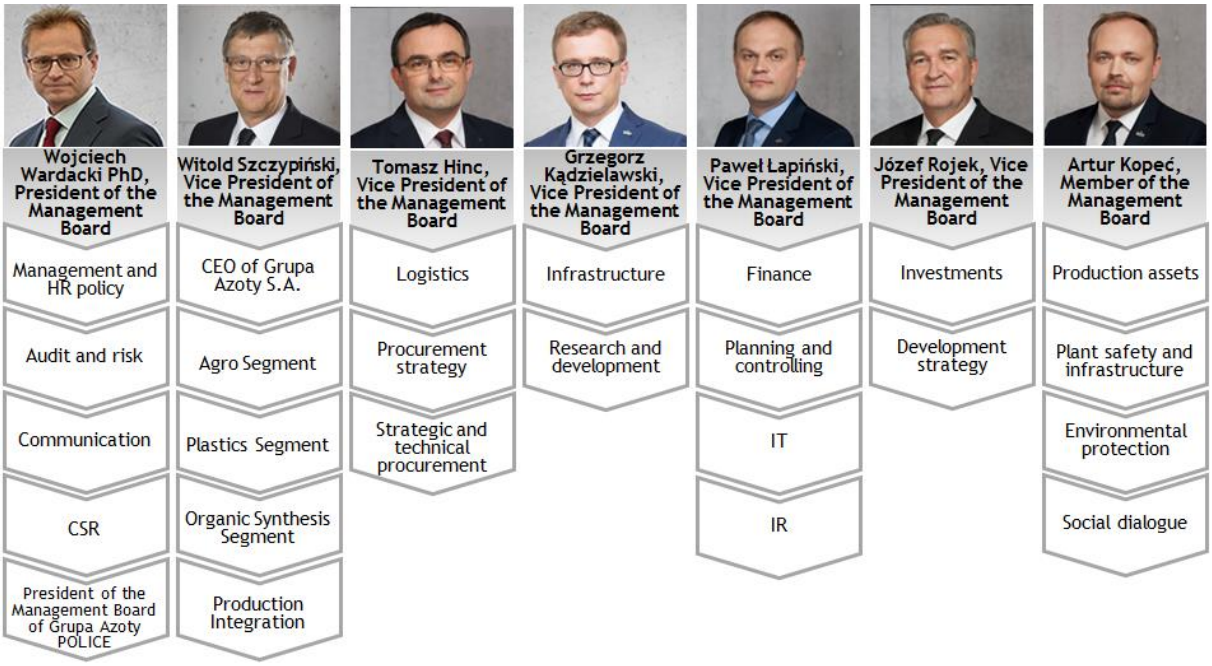
Parent's Management Board
Composition of the Management Board as at January 1st 2017:
- Wojciech Wardacki – President of the Management Board,
- Witold Szczypiński – Vice President of the Management Board,
- Tomasz Hinc – Vice President of the Management Board,
- Paweł Łapiński – Vice President of the Management Board,
- Józef Rojek – Vice President of the Management Board,
- Artur Kopeć – Member of the Management Board.

At the meeting held on June 20th 2017, the parent's Supervisory Board resolved to appoint Grzegorz Kądzielawski as Vice Presidend of the parent's Management Board, with effect from the date of the resolution.

Therefore, as at the date of this report, the Company's Management Board was composed of:
- Wojciech Wardacki – President of the Management Board,
- Witold Szczypiński – Vice President of the Management Board,
- Tomasz Hinc – Vice President of the Management Board,
- Grzegorz Kądzielawski - Vice President of the Management Board,
- Paweł Łapiński – Vice President of the Management Board,
- Józef Rojek – Vice President of the Management Board,
- Artur Kopeć – Member of the Management Board.

Powers and responsibilities of the parent's Management Board and Supervisory Board members:
On June 22nd 2017, the parent's Management Board passed Resolution No. 796/X/2017, under which the division of powers and responsibilities between the Management Board members was as follows:
- Wojciech Wardacki – President of the Management Board, responsible for overall supervision and management of the Group, as well as for the strategy and corporate governance, including exercise of majority shareholder power, human resources management, communication and corporate image (which also covers public relations and CSR),
- Witold Szczypiński – Vice President of the Management Board, Director General of the parent, responsible for integration of production processes, the Agro Segment, and the Plastics Segment,
- Tomasz Hinc – Vice President of the Management Board, responsible for procurement and logistics,
- Grzegorz Kądzielawski - Vice President the Management Board, responsible for infrastructure and R&D programmes,
- Paweł Łapiński – Vice President of the Management Board, responsible for finance, controlling, IT and investor relations,
- Józef Rojek – Vice President of the Management Board, responsible for investment projects,
- Artur Kopeć – Member of the Management Board, responsible for production assets, plant safety, environmental protection, and social dialogue.

Division of duties and responsibilities among Management Board Members



Supervisory Board
As at January 1st 2017, the parent's Supervisory Board was composed of:
- Marek Grzelaczyk – Chairman,
- Tomasz Karusewicz – Deputy Chairman,
- Zbigniew Paprocki – Secretary,
- Monika Fill – Member,
- Robert Kapka – Member,
- Artur Kucharski – Member,
- Bartłomiej Litwińczuk – Member,
- Ireneusz Purgacz – Member,
- Roman Romaniszyn – Member.

On July 28th 2017, the Annual General Meeting of the Company passed Resolutions No. 41 and 42, respectively removing Artur Kucharski from and appointing Piotr Czajkowski to the Supervisory Board of the 10th Term, with effect from the date of the Resolutions.

From July 28th 2017 to the date of this report, the composition of the Supervisory Board was as follows:
- Marek Grzelaczyk – Chairman,
- Tomasz Karusewicz – Deputy Chairman,
- Zbigniew Paprocki – Secretary,
- Piotr Czajkowski – Member,
- Monika Fill – Member,
- Robert Kapka – Member,
- Bartłomiej Litwińczuk – Member,
- Ireneusz Purgacz – Member,
- Roman Romaniszyn – Member.

The Supervisory Board operates on the basis of:
- the Commercial Companies Code of September 15th 2000 (Dz.U. No. 94, item 1037, as amended),
- the Act on Commercialisation and Privatisation (...),
- the Accounting Act,
- the Company's Articles of Association (Art. 33),
- Rules of Procedure for the Company's Supervisory Board.

Changes in the composition of the Supervisory Board's Audit Committee
From December 16th 2016, the Audit Committee was composed of:
- Artur Kucharski – Chairperson,
- Monika Fill,
- Robert Kapka,
- Ireneusz Purgacz.

Following the removal of Artur Kucharski from the Supervisory Board on July 28th 2017, on August 4th 2017 the Supervisory Board resolved to appoint Monika Fill as Chairperson of the Audit Committee and to appoint Marek Grzelaczyk and Tomasz Karusewicz as Members of the Committee.
As at the date of this report, the Audit Committee was composed of:
- Monika Fill (President),
- Marek Grzelaczyk,
- Robert Kapka,
- Tomasz Karusewicz,
- Ireneusz Purgacz.

Responsibilities of the Audit Committee
The Audit Committee operates pursuant to the Rules of Procedure for the Audit Committee, adopted by the Supervisory Board by way of Resolution No. 21/IX/2013 of July 4th 2013. The main tasks of the Committee include:
- monitoring of the financial reporting process,
- monitoring the effectiveness of the Company's internal control, internal audit and risk management systems,
- monitoring of financial audit,
- monitoring of the independence of the auditor and the entity qualified to audit financial statements,
- monitoring the audit of full-year and consolidated financial statements,
- monitoring the work and reports of the independent qualified auditor.

Changes in the remuneration policy for management and supervisory boards of Gurpa Azoty Group companies
On February 23rd 2017, as part of the integration process, in connection with amendments to the laws and regulations applicable to the rules and levels of remuneration for corporate board members, the Management Board approved the "Remuneration policy for management and supervisory board members in Grupa Azoty Group companies" with the following appendices:
- Rates for individual Reference Groups,
- Rules for payment of variable remuneration to management board members in Gurpa Azoty Group companies,
- Form of management contract for sole traders
- Form of service provision contract for individuals other than sole traders
- Form of post-employment non-competition agreement

In view of the above decision, the Management Board has commenced a procedure to implement the Policy in the Group companies.

Implementing Resolution No. 8 of the Company's General Meeting of December 2nd 2016 on the rules of remuneration for the Management Board Members, which obliged the Supervisory Board to ensure the conformity of the terms and conditions of management contracts concluded with Management Board Members for the period of such Members' appointment with the provisions of the Act on Rules of Remunerating Persons Who Manage Certain Companies of June 9th 2016 and with the aforementioned resolution of the General Meeting, on February 6th 2017 the Supervisory Board passed the following resolutions:
- On terms of employment and remuneration for Management Board Members,
- On the delegation of authority to the Chairperson of the Supervisory Board to terminate existing employment contracts and post-employment non-competition agreements with Management Board Members,
- On the delegation of authority to the Chairperson of the Supervisory Board to conclude management contracts with Management Board Members for the period of such Members' appointment

5. Supplementary information

Management Board's position on the achievement of forecasts
As no forecast for 2017 have been published, the position of the parent's Management Board concerning achievement of such forecasts is not presented.

Litigation
There are no proceedings pending at the Grupa Azoty Group companies concerning liabilities or debt claims whose value would represent 10% of Grupa Azoty's equity, i.e. would satisfy the materiality criteria specified in the Regulation of the Minister of Finance of February 19th 2009 on current and periodic information (consolidated text: Dz. U. of 2014, item 133, as amended).
The total amount of all proceedings involving the Group companies does not exceed 10% of Grupy Azoty S.A.'s equity.

Parent's branches
The Company does not operate non-local branches or facilities.

Shares, share issues
In the first half of 2017, the parent did not issue, redeem or repay any debt or equity securities. The Company had spent the proceeds from Public Offerings by the end of 2013. The proceeds were used in line with the original issue objectives.
There are no agreements known to the Company which may cause future changes in the percentages of shares held by the existing shareholders and bondholders
The Company does not operate any control system for employee share ownership plan.

Directors' Report on the operations of the Grupa Azoty Group in H1 2017 contains 60 pages.

Signatures of Members of the Management Board

……………………………… Wojciech Wardacki, PhD *President of the Management Board*	……………………………… Witold Szczypiński *Vice President of the Management Board* *Director General*
……………………………… Tomasz Hinc *Vice President of the Management Board*	……………………………… Grzegorz Kądzielawski *Vice President of the Management Board*
……………………………… Paweł Łapiński *Vice President of the Management Board*	……………………………… Józef Rojek *Vice President of the Management Board*
……………………………… Artur Kopeć *Member of the Management Board*	

Tarnów, August 22nd 2017